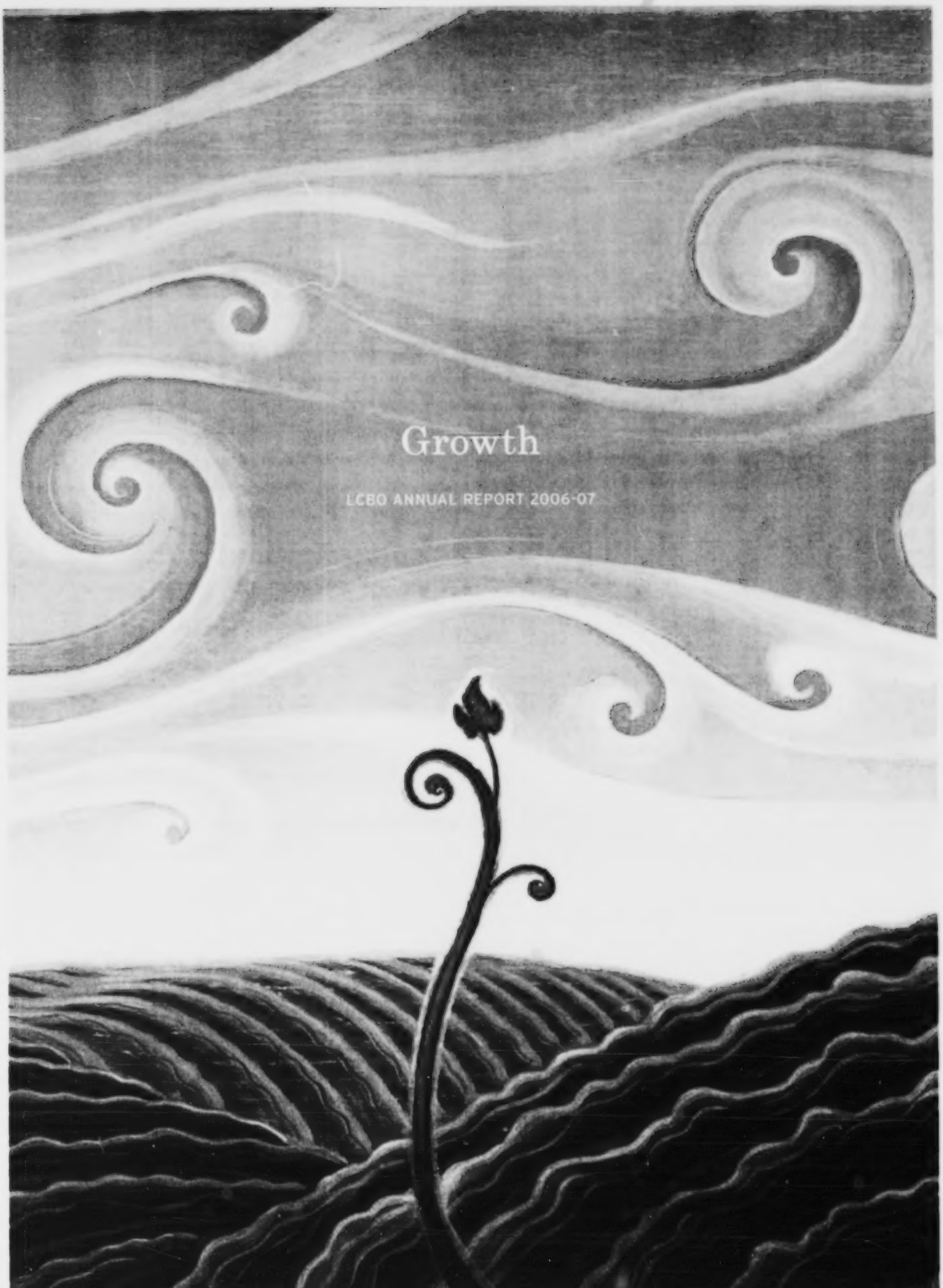
Growth
LCBO ANNUAL REPORT 2006-07

The Honourable David Caplan,
Minister of Public Infrastructure Renewal

Dear Minister,

I have the honour to present you with the 2006-07
Annual Report of the Liquor Control Board of Ontario.

Respectfully submitted,

Philip J. Olsson
Chair

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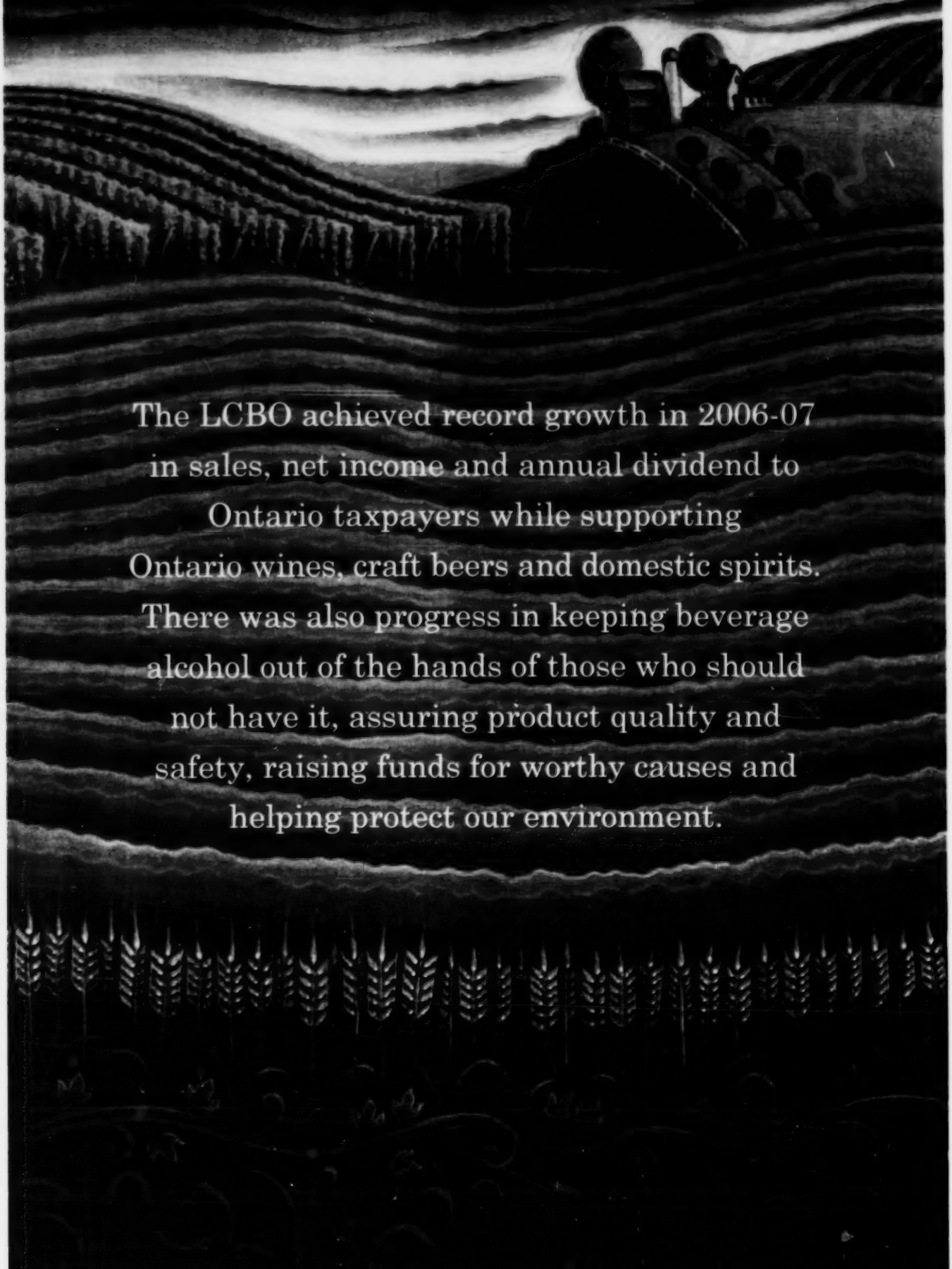
DISCOVER LCBO THE WORLD



The LCBO achieved record growth in 2006-07 in sales, net income and annual dividend to Ontario taxpayers while supporting Ontario wines, craft beers and domestic spirits. There was also progress in keeping beverage alcohol out of the hands of those who should not have it, assuring product quality and safety, raising funds for worthy causes and helping protect our environment.

The Honourable David Caplan, *Minister of Public Infrastructure Renewal*

As Minister of Public Infrastructure Renewal, with responsibility for the LCBO, I am pleased to provide you with the LCBO Annual Report for the fiscal year 2006-07.

Since assuming responsibility for the LCBO in the summer of 2005, I've had the privilege of closely witnessing the leadership responsible for the LCBO's progress. During fiscal 2006-07, the LCBO worked hard to continue to meet the expectations of government, customers, taxpayers and other stakeholders. It was the 13th straight year the LCBO increased its dividend to the province and the fourth consecutive year the dividend topped $1 billion. Revenue from the LCBO helps pay for health care, education and other important government programs and services.

I'm especially proud of this agency's commitment to social responsibility and the environment. Reducing waste is one of the most important issues Ontario municipalities face. By boosting diversion efforts we are ensuring that Ontario families can live in healthy communities for generations to come. Since 2001-02, the LCBO has contributed more than $35 million to Stewardship Ontario to support the Blue Box program and has helped to establish new markets for used coloured glass. The LCBO took this leadership role then, and will continue to be a leader as our environmental initiatives evolve.

On February 5, 2007, the Ontario government, with the LCBO as a key partner, introduced a new deposit return program across the province. The *Bag it Back* program will help divert significantly more glass and other beverage alcohol containers from landfills and put the recycled material to higher-end use. It is a win for municipalities, a win for the environment, and a win for Ontarians.

Ontario is now the first jurisdiction in North America to have both a widespread comprehensive Blue Box program and a deposit return program. With the help of all Ontarians, these two programs will work together to help create a greener Ontario.

The LCBO continues to work on its own and in partnership with others to promote responsible drinking and discourage high-risk activities such as drinking and driving, while maintaining vigilant responsible service to prevent sales to minors and intoxicated adults. LCBO employees challenged a record 1.8 million customers in fiscal 2006-07 who appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person – almost six per cent more than the previous year. Arising from those challenges, almost 123,000 potential customers were refused service – a 10 per cent increase. Of those, 82 per cent were refused because they couldn't prove they were of legal drinking age.

The LCBO also increased its efforts this past year to encourage responsible consumption by launching its first-ever contest to promote safe and sober driving and responsible hosting. The event and contest were excellent ways to showcase the LCBO's ongoing commitment to social responsibility. The agency also continued its high-profile TV advertising to discourage drinking and driving with a new campaign that aired throughout the summer and fall of 2006, which told the story of people who helped convince their friends to leave their cars overnight if not fit to drive.

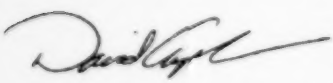
While continuing to grow the business in a socially responsible manner, the LCBO effectively managed its operating costs through good expense control. To meet the changing tastes and evolving interests of its diverse customers in communities across the province, the LCBO continues to improve its service by renovating, replacing or building new stores, always basing these decisions on the store's return on investment.

As part of its mandate to support the domestic industry, this past year the LCBO held its largest-ever Ontario wine promotion – teaming up with Air Miles for a *Buy to Fly* contest, which helped increase awareness of Ontario wines. The promotion resulted in a year-over-year increase of 13.6 per cent and $2.9 million more in sales

for the same period the previous year. This was especially impressive during a year when the domestic industry faced crop shortages.

With Philip Olsson as Chair, supported by a dedicated Board and seasoned management team led by President and CEO Bob Peter, I'm confident the good corporate governance, transparency and accountability of the LCBO will continue in 2007-08 and keep pace with changing market demands and upcoming trends in the beverage alcohol industry.

Sincerely,



The Honourable David Caplan
Minister of Public Infrastructure Renewal
August 2007

Philip J. Gibson *Chair*

The LCBO is frequently cited as a leader in all facets of its business – from supply chain, marketing and consumer research to staff development and store design. Other liquor boards, as well as other leading-edge retailers from Canada, the U.S. and Europe, visit our stores regularly to observe first-hand the LCBO's high level of customer service, product assortments, in-store marketing and design.

It is an honour to be Chair of the LCBO and to have an opportunity to contribute to its further development. LCBO is an organization that takes pride in offering customer service in a socially responsible manner and that supports social programs and capital projects through its annual dividends.

In fiscal 2006-07, the LCBO generated a record $3.895 billion in net sales, $1.301 billion in net income and delivered an all-time high $1.28 billion dividend, not including taxes, to the Ontario government.

Net sales increased 6.4 per cent ($235 million), while net income rose 8.0 per cent ($96 million) and the dividend increased 6.6 per cent ($80 million) compared to fiscal 2005-06. These are impressive figures. They were produced through a high standard of fiscal management, operational efficiency, customer service excellence, effective merchandising and marketing and transparent corporate governance.

I was appointed Vice-Chair of the LCBO Board in June 2004 and became Acting Chair and CEO when Chair and CEO Andy Brandt retired. In March 2007, changes were made to the *Liquor Control Act*, which governs the operations of the LCBO. These changes were based on recommendations made by the LCBO after an extensive review of our governance practices. I became Chair, with Bob Peter becoming CEO (in addition to his duties as president), fully responsible for day-to-day operations and the management of the organization.

Bob's appointment as CEO by the LCBO Board reflects his tremendous contributions since joining the LCBO in November, 2001. I congratulate him on behalf of the Board and all LCBO employees.

The separation of Chair and Chief Executive Officer roles provides a more modern governance structure in line with the principles of corporate governance. It is consistent with best practices at other progressive private and public sector organizations. It strengthens the LCBO governance structure and increases the effectiveness of the highly professional management team.

Another amendment to the Act enabled the LCBO to increase membership of the Board from seven to 11. This allows the Board to draw on a more varied range of experience and expertise.

To this end, three new Board members were added in 2006-07: Geoffrey Larmer, Heather Andrechuk and Harvey T. Strosberg. Three additional board members (Ramesh Srinivasan, Jay W. Lee and Penny Lipsett) were appointed in the spring of 2007. Each of these members bring a unique perspective to the LCBO Board based on their professional experience – from law and retail to hospitality, finance and public affairs – strengthening the wide range of expertise already on the Board.

My fellow Board members and I thank every employee of the LCBO for once again meeting and in many cases exceeding key performance indicators for the year, while always striving to deliver service in a socially responsible way. We are honoured to be part of this dedicated team of professionals.

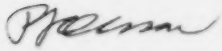
In September, I had the opportunity to present on behalf of the LCBO Board to the Legislature's Standing Committee on Government Agencies. The committee is an all-party committee of the Ontario legislature responsible for overseeing the operations of agencies, boards and commissions. I had the pleasure of reporting to this committee on how progressive the LCBO has become.

The committee made 16 recommendations, many of which were implemented before the end of this fiscal year, such as the introduction of a deposit return system for

LCBO containers and the separation of the Chair and CEO functions. Many of the other recommendations were suggestions for continuing to improve in areas in which the LCBO already performs well, such as social responsibility and support for Ontario wine.

This focus on continuous improvement defines the LCBO corporate culture. Five-year strategic plans and rigorously benchmarked performance against these and other plans have enabled the LCBO to better anticipate, understand and respond to forces shaping Ontario's beverage alcohol marketplace. In 2007-08, the LCBO will launch its next five-year plan (2008-2013).

I look forward to leading the organization as the LCBO continues its successful evolution as a profitable, socially and environmentally responsible retailer, striving to constantly improve the customer shopping experience.



Philip J. Olsson
Chair
August 2007

Bob Peter *President and CEO*

Record revenue, a healthy net income number and another record dividend highlight our financial performance for fiscal 2006-07.

Strong summer sales combined with record holiday sales of more than $500 million helped boost our financial performance. Demographics, appealing LCBO products and promotional activities, also contributed to this record performance. Baby Boomers, with more disposal income than ever before, are trying new products, trading up to premium products and entertaining more.

All LCBO product categories and VINTAGES, the fine wines and premium spirits business unit, saw sales increases. VINTAGES sales increased by 18.7 per cent to $260 million while wines topped all product categories with 7.5 per cent sales growth. The wines category (not including VINTAGES) also topped the $1 billion mark ($1.049 billion) in annual sales for the first time, with sales 44 per cent higher than they were five years ago.

We continued to improve our supply chain, while also substantially growing sales. As a result of these improvements, we've been able to improve product selection and availability while freeing up staff time to better serve customers and freeing up cash to reinvest in upgrading our stores, warehouses and IT systems. Our progress in improving our supply chain system was recognized by yet another award from the Retail Council of Canada in 2006-07 for our collaborative supplier online product submission system.

This year marked the beginning of a new deposit return program, launched by the provincial government jointly with the LCBO and The Beer Store on February 5. We know protecting the environment is an important priority for all Ontarians. The LCBO embraced the deposit return program for beverage alcohol containers and I thank all employees for their hard work in ensuring the successful implementation of this program.

We also continued to reduce our environmental footprint by offering customers new choices. We launched French Rabbit in environmentally-friendly Tetra Pak containers, less than two years ago, and by the end of fiscal 2007 we had followed up with 170 new products in Tetra Pak, PET and aluminum, in all product categories from all of the key countries of origin. In the last fiscal year, these new eco-friendly packages accumulated sales of more than $80 million. By offering customers new alternative packaging choices, LCBO reached its goal of eliminating 10 million kilograms of waste per year, two years ahead of schedule.

The deposit return program together with our alternate packaging strategy will help us achieve a 40 per cent improvement in our ability to divert package waste from landfill.

The LCBO was founded on social responsibility. We are now building on that tradition of caring for our customers and our communities by promoting environmentally-responsible retailing practices. Research confirms that both the public and our employees care about the environment and wish to help make a difference to the future.

The LCBO has also established a Natural Heritage Fund to help protect Ontario's natural environment by preserving and expanding wildlife habitat. Funding comes from both supplier contributions and by committing 50 cents from the sale of every cloth Envirobag sold at LCBO stores. With the help of its suppliers, the LCBO has raised almost $2 million to date for projects to restore and rehabilitate Ontario wildlife habitat, including *Bring Back the Salmon*, which will see the return of Atlantic salmon to Lake Ontario after its local extinction more than 100 years ago, and improve water quality and habitat throughout the Lake Ontario watershed. Already, the LCBO's Natural Heritage Fund has supported projects such as river rehabilitation, an eaglet identification project in the Thousand Islands and the restoration of natural habitat for threatened frog species and the Eastern Loggerhead Shrike songbird.

The LCBO also continued to shine in other areas of social responsibility by continuing to fundraise and support various charities at both the corporate and grassroots levels. We collected a new corporate record of $412,000 for the United Way, and for the second year in a row LCBO was honoured with the United Way Spirit Award for Public Awareness.

Sales of Ontario wines were particularly strong in fiscal 2006-07, increasing 7.9 per cent, aided by the successful *Buy to Fly* promotion which helped to build sales momentum for Ontario wines going into the critical holiday sales period. Numerous in-store promotional initiatives, including LCBO staff dedicated to promoting Ontario wines, also helped to increase Ontario wine sales at LCBO stores.

Ontario craft beer sales — helped by LCBO in-store promotional initiatives and dedicated staff to promote these products — rose by 27.6 per cent, while sales of imported beers increased 8.2 per cent.

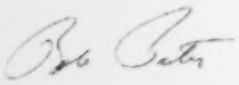
In 2007-08, we expect sales to top $4 billion and the dividend to rise to $1.325 billion, an increase of $45 million. We will continue to invest in our people and in our stores; the next fiscal year will see the opening of more stores, the relocation of others and the ongoing renovation of existing stores to update them to our current standards. All new stores will include bigger VINTAGES sections, as well as increased Ontario wine and beer sections.

Continuous improvement is the lifeblood of any forward-thinking and innovative organization and the LCBO prides itself on keeping the momentum moving and continuing to improve our product selection, customer service and operational efficiency.

In 2007-08, VINTAGES is set to launch an on-line buying channel, which is an exciting opportunity that expands our wine assortment and offers one more way for our customers to conduct business with us.

We are also entering the final year of our five-year strategic plan and work on our next five-year plan (2008-2013) is well under way. We are enthusiastic about our strategic direction and the opportunities it offers.

Our previous plan and our brand vision — *Discover the World* — have given us the direction and inspiration for what we have achieved since 2003 and they continue to be our road map. This vision works well and I am confident our employees will continue to deliver on this brand promise, providing our customers with the right products at the right time and serving them in a socially-responsible manner.



Bob Peter
President and Chief Executive Officer
August 2007

Organization Structure

The LCBO is comprised of:

- Office of the Chair
- Office of the President and Chief Executive Officer
- Retail, including Retail Operations and Store Development and Real Estate
- Sales and Marketing, including Merchandising, Marketing and Customer Insights, Quality Assurance and VINTAGES
- Logistics
- Finance and Administration
- Information Technology
- Human Resources
- Strategic Planning
- Resource Protection
- Legal Services
- Policy and Government Relations, including Corporate Affairs, Freedom of Information and Privacy, and Social Responsibility and Environment
- Corporate Communications, including Broadcast Production Group and French Language Services.

Senior Management

During the 2006-07 fiscal year, senior management members, responsible for day-to-day operations and strategic planning, were:

Bob Peter
President and Chief Executive Officer

Jackie Bonic
Vice President, Store Development & Real Estate

Alex Browning
Senior Vice President, Finance & Administration and Chief Financial Officer

Nancy Cardinal
Vice President, Marketing and Customer Insights

Bob Downey
Senior Vice President, Sales and Marketing

Roy Ecker
Senior Vice President, Retail Operations

Mary Fitzpatrick
Senior Vice President, General Counsel and Corporate Secretary

Patrick Ford
Senior Director, Policy and Government Relations

Murray Kane
Senior Vice President, Human Resources

Hugh Kelly
Senior Vice President, Information Technology

Bill Kennedy
Executive Director, Corporate Communications

Ian Martin
Senior Vice President, Logistics

Barry O'Brien
Director, Corporate Affairs

George Solcas
Vice President, Quality Assurance

Shelley Sutton
Director, Strategic Planning

Tom Wilson
Vice President, VINTAGES

Board Members

Philip J. Olsson

He was appointed to the Board as Vice Chair in June, 2004, became Acting Chair and CEO on February 6, 2006, and non-executive Chair (pursuant to the Liquor Control Act) on March 7, 2007. Term expires March 6, 2010.

Mr. Olsson is a partner in K J Harrison & Partners Inc., a privately-held investment firm for private individuals. He has had a career of more than 30 years in finance, as an investor and investment and commercial banker, including Managing Director, Private Equity, at Altamira Investment Services Inc., where he restructured and oversaw Altamira's private equity functions. Prior to that he was Managing Director of Royal Bank Equity Partners Limited, the Royal Bank Financial Group's merchant banking unit, and, before that, was Vice Chairman of RBC Dominion Securities, Canada's largest investment bank. Mr. Olsson holds BA and MBA degrees from Vanderbilt University, Nashville, Tennessee, and studied monetary economics as a postgraduate at the London School of Economics. He holds a CBV designation from the Canadian Institute of Chartered Business Valuators. He has long been active in community and civic affairs on behalf of such organizations as the United Way, Wilfrid Laurier University, the Shaw Festival and Trout Unlimited.

Note: Linda Bramble resigned from the board in April 2006

Steve Diamond

Appointed September 21, 2005, and appointed Vice Chair March 7, 2007. Term expires March 6, 2010.

Mr. Diamond is president of Diamondcorp, a real estate development and consulting business. He also serves as chair of PAYE (partnership to advance youth employment) and he is a member of Toronto Mayor David Miller's Committee on Community Safety. Mr. Diamond serves as a director of the Mount Sinai Hospital Foundation, Whitecastle Investments and the Ontario Urban Development Institute. He is interested in environmental issues both as a lawyer and a layman. His law practice focuses on work in the administrative law area, providing advice and advocacy in matters pertaining to planning, environmental and municipal law. He has acted for a wide variety of both public and private sector clients. Mr. Diamond's practice involves strategic advice as well as appearances before municipal councils, the courts and the Ontario Municipal Board. He has acted as counsel on some of the largest and most sophisticated projects that have been approved in the Greater Toronto Area. Mr. Diamond received his LLB from the University of Western Ontario and was called to the Ontario bar in 1978. He gives back to the educational community through frequent lectures at local law schools and other educational organizations.

Heather Andrechuk

Appointed August 24, 2006. Term to expire August 23, 2009. Resigned December 12, 2007.

Ms. Andrechuk has more than 25 years' experience in the retail industry, having worked for the Hudson Bay Company in progressive leadership positions in a variety of functions from buying and financial planning to sales and marketing. She led major change initiatives at regional flagship stores in both Winnipeg and Vancouver and helped create the company flagship store in downtown Toronto. She became a regional manager and vice president. She was then appointed Director of Stores and Operations for Home Outfitters (a bed, bath and kitchen specialty chain and a HBC affiliate), managing a portfolio of more than 50 stores and 2,500 employees.

Ms. Andrechuk is a graduate of the University of Manitoba and a volunteer with Mater Dei, a non-profit organization helping women with addictions.

Geoffrey R. Larmer

Appointed May 30, 2006. Term expires May 29, 2009.

Mr. Larmer is president of Larmer Professional Corporation, North Bay, a law firm restricted to personal injury and insurance litigation. His practice gives him a unique perspective on social responsibility and liability, particularly in terms of underage alcohol consumption and the consequences of not drinking responsibly. His clients include victims of drinking and driving accidents. He graduated from the University of Western Ontario in 1989 with an honours degree in Medical Biophysics and in1992 with a bachelor of laws degree. He articled with Bereskin & Parr, Toronto, where he trained in intellectual property, patent, trademark, copyright and related licensing matters. He was called to the bar in 1994 and founded Larmer & Larmer Barristers, North Bay. Larmer Professional Corporation was formed in 2005. He is a member of Nipissing Law Association, Ontario Trial Lawyers Association and the Association of Trial Lawyers of America, and a former director and past-president of the North Bay and District Humane Society.

Laurel Murray

Appointed August 8, 2005. Term expires August 7, 2008.
Member, Audit and Governance Review Committee.

Ms. Murray is a chartered accountant with more than 18 years of senior management experience in the private and public sectors. Since 2000, Ms. Murray has headed up her own management consulting firm. Over the past 20 years, she has helped a number of federal and provincial agencies and ministries improve the way they manage risks, measure performance and improve accountability. Ms. Murray is a proponent of good governance and oversight. She also has a keen interest in the environment. Her areas of expertise include strategic planning and reporting; performance measurement; integrated risk management; financial management, accounting and auditing; financial systems; project management; program implementation and organizational design. She graduated with honours from Carleton University in 1986 with a Bachelor of Commerce. She received her Chartered Accountant designation from the Canadian Institute of Chartered Accountants in 1989. An active mother, wife and volunteer, Ms. Murray balances work and family while still playing an active role to help those in need in her community.

Jean Simpson

Appointed November 3, 2004. Term expires November 2, 2007.
Chair, Audit and Governance Review Committee.

Ms. Simpson has had a lifelong interest in mental health, beginning her career as a nurse and moving into management at the Clarke Institute of Psychiatry and Women's College Hospital in Toronto. She then became Director of Mental Health Pro-

grams and Services at the Ministry of Health, returning to the Clarke Institute as Executive Vice President and COO and subsequently Executive Vice President and Chief Operating Officer of the Centre for Addiction and Mental Health when it was created in 1998. She retired in June, 2003, but continues her work in mental health through membership of the boards of the Ontario Council of Alternative Businesses, a not-for-profit organization with a provincial mandate to develop alternative businesses owned and operated by psychiatric survivors and consumers of the mental health system and as Chair of Workman Arts, a project that provides individuals with mental health and addiction issues multi-disciplinary artistic opportunities in film, theatre, literary arts, visual arts and music. As a former COO, she also coaches senior business executives.

Harvey T. Strosberg, QC, LLD, DCL

Appointed March 7, 2007. Term expires March 6, 2010.

Mr. Strosberg, Q.C., is a senior partner at Sutts, Strosberg, LLP, Windsor. He has extensive trial and appellate experience in the areas of torts, personal injury, product liability, commercial disputes and class action litigation. He was called to the bar in 1971, has been a bencher (director) of the Upper Canada Law Society since 1987 and was Treasurer (President) from 1997 to 1999. He is the editor of the *Canadian Class Action Review*. He is an adjunct professor of law at the University of Windsor. He teaches a course in class action law at the law schools at the University of Windsor and the University of Ottawa.

Corporate Structure

The LCBO is a crown agency reporting to the Minister of Public Infrastructure Renewal and is classified by the Ontario government as an operational enterprise. Its mission is: "To be a socially responsible, performance-driven, innovative and profitable retailer, engaging our customers in a discovery of the world of beverage alcohol through enthusiastic, courteous and knowledgeable service."

The LCBO has a board of directors consisting of up to seven members[1]. They are appointed by the Lieutenant-Governor, through orders-in-council, on the recommendation of the Premier and the Minister of Public Infrastructure Renewal. Members are appointed for a term of up to five years. There are regular board meetings.

The mandate of the board of directors is to oversee the management of the business affairs of the LCBO. Among its most important responsibilities are:

- Ensuring that the LCBO provides high-quality service to the public
- Monitoring and reviewing the corporation's approach to corporate governance
- Approving the strategic plan and monitoring management's success in meeting its business plans
- Approving annual financial and business plans
- Ensuring that the organization remains financially sound
- Assessing and managing business risks
- Submitting annual financial plans and business plans to the Minister of Public Infrastructure and Renewal
- Ensuring the organization has an appropriate communications policy
- Ensuring that the LCBO performs its role in a fair, ethical and impartial manner and in accordance with applicable laws
- Establishing and overseeing the succession planning of senior management
- Ensuring that policies and processes are in place to ensure the integrity of the corporation's internal controls.

Audit and Governance Review Committee

The board has an audit and governance review committee whose members are elected by the board. The committee is responsible for the reliability and accuracy of

[1] An amendment to the *Liquor Control Act* enabled expansion of the board from seven to 11 members.

the LCBO's financial statements and for assessing the risks facing the organization and for implementing appropriate systems to manage these risks. It plays a significant role in establishing and monitoring sound corporate governance policies and practices.

Ethics and business conduct

The board has adopted a code of conduct that includes policies addressing conflict of interest, confidentiality, the outside activities of employees and officers, gifts and entertainment, and human rights.

Health and safety

The board approves an annual Health and Safety policy and ensures it is kept informed of health and safety issues through regular reports.

Store Planning and Development Committee

This is a management committee that reviews real estate and leasing transactions and makes recommendations to the board for final approval.

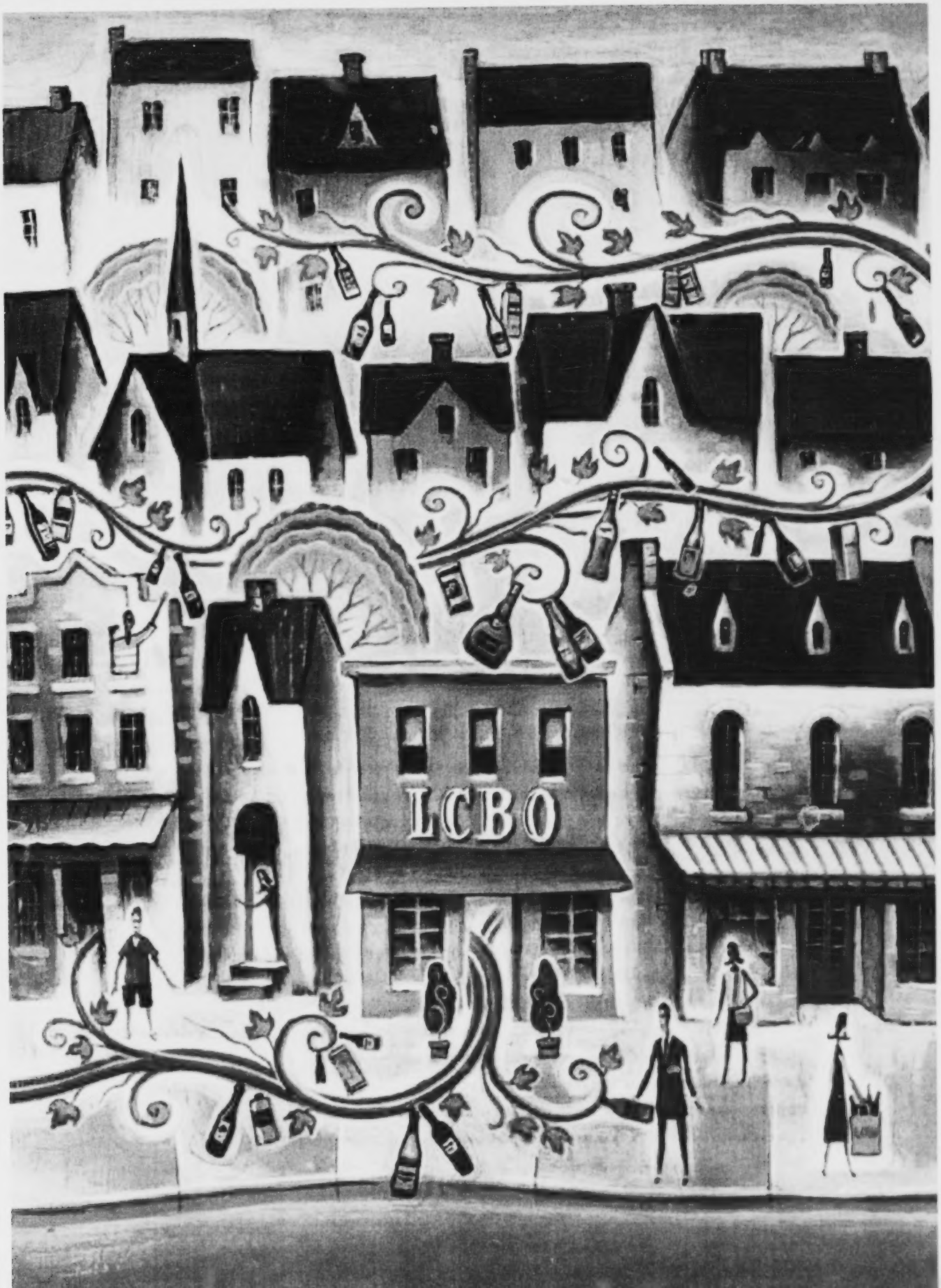
Listings Appeals Committee

This committee reviews appeals of denials of listing applications.

Accountability

The LCBO is accountable to its stakeholders in a number of ways, including:

- Its annual report is required to be tabled in the provincial legislature and available to all Ontarians in print or online at www.lcbo.com
- Annual audits of LCBO financial statements are required by the *Liquor Control Act* and conducted by the Office of the Auditor General of Ontario
- The LCBO is subject to the *Freedom of Information and Protection of Privacy Act*, which provides for public access to various records
- LCBO board members must be appointed by an order-in-council
- Various statutory reporting requirements under the *Liquor Control Act* require the corporation to provide reports to the Minister and the Treasurer of Ontario
- The corporation is required to comply with applicable Management Board directives


LCBO

Product Trends

Each of the four business units grew in 2006-07. The Wines business unit was up 7.5 per cent, reaching $1 billion in revenue for the first time; Spirits saw the most growth in its premium and deluxe price bands (up 6.7 per cent and 6.8 per cent respectively); Beer and Special Markets had net sales of $921.7 million versus the previous year's sales of $880.6 million; while VINTAGES sales jumped more than 18 per cent.

Wines

Revenue breaks billion dollar mark

The Wines category grew by 7.5 per cent or $73.6 million to slightly more than $1 billion in revenue versus the previous year. This was the first time the Wines category reached $1 billion in revenue. This was also 2.1 per cent or $21.4 million above plan.

The major contributors to this growth were:

New Products

The LCBO introduced 256 new wines during 2006-07, accounting for $44 million in sales, or 61 per cent of revenue growth.

The LCBO continued to implement its alternative container strategy. During 2006-07, we sold 90 products from nine different countries, and from Ontario, packed in non-glass packages such as Tetra Pak containers, PET plastic bottles and cans. Consumer acceptance of these new alternative containers surpassed expectations; during 2006-07, the LCBO sold products worth $25.5 million, or 2.5 per cent of total wine sales, in these formats.

Promotions

Buy to Fly: The first-ever Ontario *Buy to Fly* promotion resulted in an unprecedented 13.6 per cent growth in the sales of Ontario wines over the same period versus the previous year. This is noteworthy considering that in previous years the growth in the Ontario category was between three and five per cent during this same period. The *Buy to Fly* promotion also had a significant spill-over effect as the growth of the category continued after the promotional period finished.

Latin Fever: The *Latin Fever* promotion highlighted wines from Chile and Argentina. This resulted in a 94 per cent growth in the sales of these wines during the promotional period.

Product Categories Performance

During 2006-07 the following categories achieved the largest growth:

- Ontario grew by 8.9 per cent or $18.5 million. Most of this growth was through non-VQA varietals ($13.4 million or 72 per cent). This is attributable to the short crop Ontario vineyards faced in 2005-06, which forced many producers to switch their VQA products into non-VQA products. LCBO expects most of these items to revert back to VQA by September 2007.
- New World wines grew by 9.8 per cent or $34.8 million primarily through Australian ($14.6 million, 7.2 per cent), Chilean and Argentinean ($8.9 million, 15.8 per cent), and Californian ($7.4 million, or 12.3 per cent) products.
- European wines showed a $19.9 million or 5.2 per cent increase, mainly in Italian wines ($14.5 million, or 10 per cent).
- Sparkling wines, Spanish wines and rosés show great growth potential for the coming fiscal year.

Outlook for 2007-08

- Continue to support the environmental packages initiative with strong focus on PET.
- Work at developing emerging and fast growing segments such as rosé and sparkling and new emerging countries such as Spain and Portugal.
- Offer more single-serving sizes and multi-packs.
- Continue to work collaboratively with suppliers to build stronger brands and innovative and convenient packaging.

Spirits

Spirits account for just 15 per cent of litre sales but 40 per cent of net sales and 47 per cent of margin dollars. The business unit's margin rate of 58.8 per cent was significantly higher than the corporate rate of 50.4 per cent and up from 58.1 per cent last year.

The following contributed to the growth of spirits sales in 2006-07:

Promotions

The cocktails and whisky promotions were repeated this year in response to growing consumer interest in premium spirits. Sales during *Cocktail Remix* grew by $4.7 million or 4.2 per cent versus the previous year while sales during *Whisky Generation* grew by a very healthy $9.2 million or 9.3 per cent.

Spirits held a third promotion in 2006-07 with the LCBO's first-ever all liqueurs promotion. *Just Add Liqueur* was designed to showcase the versatility of liqueurs in cocktails, cooking and baking. Sales grew by $7.1 million or 6.3 per cent versus the same five weeks of the previous year.

In 2007-08, LCBO will again feature two spirits promotions: *Hot City Cocktails* and *Whiskey in Focus* in the fall.

Cocktails

Spirits growth continued to benefit from the surging popularity of cocktails. Vodka and liqueurs – two of the most popular spirits in mixed drinks – enjoyed sales increases of 9.8 and 7.3 per cent respectively. The LCBO offered customers quick, easy recipes taste-tested by experts from the LCBO and the spirits industry. Cocktail development continues to thrive on flavour, natural colours, fresh fruit and healthy ingredients.

Premium products

Most growth came in premium and deluxe price bands, up 6.7 per cent and 6.8 per cent respectively. Standard brands increased by 2.2 per cent fuelled by floor price increases and changes to excise tax. Liqueurs grew by 7.3 per cent.

Premium and deluxe products continue to be of growing interest to consumers and the spirits buying team is working to ensure customers have access to the products they desire.

Innovation

New flavoured products, especially those that make good cocktail ingredients, were well received by consumers. Some 23.4 per cent of spirits' annual growth came from 56 new products introduced in 2006-07.

Gifts

A total of 86 supplier gifts were offered by the spirits category resulting in $14.6 million in net sales. This was $1.4 million short of the sales forecast of $16 million, explained largely by the popularity of gift cards, which, for all business units, increased by 33 per cent or $3.7 million versus the previous year. The top three gift categories were Canadian whisky, cream liquors, and brandy/cognac which accounted for 91 per cent of the spirit gift pack sales.

Supply

Improved inventory flow helped ensure stores had the products customers wanted, when they wanted them, especially during the busy holiday season.

Supplier Collaboration

LCBO suppliers contributed to the growth in spirits through their support of promotions and tie-ins to on-premise activities.

All segments except duty-free grew, including Canadian whisky and brandy/cognac which were in decline the previous year. The strongest growth came from vodka (up $29.7 million or 9.8 per cent) and liqueurs (up $16.2 million or 7.3 per cent). Vodka sales have grown by $109 million to $334.2 million since 2000-01.

Other segments that did well included tequila (up 13.5 per cent), Irish whiskey (up 5.7 per cent), American whiskey (up 9.1 per cent), rum (up 4.4 per cent), Scotch whisky (up 4.9 per cent) and Canadian whisky (up 2.4 per cent or $8.7 million). Duty-free spirits sales continued to slide with a decline in 2006-07 of 14.4 per cent.

The highest rates of growth were for premium and deluxe products in higher price brands. Excluding gift packs, liqueurs and duty-free items, the premium and deluxe segments accounted for 87.4 per cent of the business unit's growth over the previous year.

Domestic spirits increased 4.2 per cent in value, 5.0 per cent in margin and 0.2 per cent in litres. The fact margin and dollar sales increased at a faster rate than litre sales shows customers were interested in trying more premium products.

Imported spirits increased by 7.8 per cent in value, 9.6 per cent in margin and 3.7 per cent in litres. These figures also reveal a trend toward premium products.

Customer-Focused Activities in 2006-07

Mixed drink display fixture:

In more than 50 stores, the mixed drink display fixture changes monthly, offering four new "Guaranteed Delicious" cocktails that are easy to make. All ingredients are displayed, often in 375 mL sizes to encourage trial.

The spirits team will be investigating bundling options to make it easier for customers to purchase all of the ingredients for the mixed drinks recipes.

Spirits Advocate program:

This program selects one employee from each of the top 250 spirits-selling stores to act as a "resident expert" on spirits, interacting with customers and helping them understand the versatility, cost-effectiveness and ease of using spirits. They are also responsible for passing on their knowledge to colleagues to ensure someone has the answer whenever a customer has a question.

In 2006-07 the LCBO conducted training sessions during the *Cocktail Remix* and *Just Add Liqueurs* promotions. There was also a Toronto training session during *Whisky Generation*, featuring a tasting session by whisky guru Jim Murray. A video of this session was sent to all Spirits Advocates.

Additional visits by industry experts are planned for 2007-08 to coincide with spirits thematics.

Premium Fixture:

In more than 70 stores, the premium fixture program brings in rare and unique spirits seasonally, allowing customers access to hard-to-find items. With a focus on brown spirits in the fall, and white spirits in the spring, we search the globe for unusual products that may be in short supply – some of which are exclusive to the LCBO.

Outlook for 2007-08

The Spirits category will continue to respond to the trend to premium and deluxe products. We will also focus on the licensee channel to develop the "Cocktail Culture" in Ontario.

We will continue to collaborate with our suppliers to source new and exclusive products for the LCBO.

Beer & Special Markets

Sales for Beer and Special Markets were good in 2006-07, finishing well ahead of the previous year and ahead of plan. Beer drove overall category sales increases while Special Markets struggled to maintain sales to last year. Margin results were stronger than sales, with results topping 5.3 per cent ahead of the previous year and 4.1 per cent ahead of plan.

Beer & Special Markets	2006-07 Actual	2006-07 Original Plan	2006-07 Re-forecast	% Change to Last Year	% Change to Original Plan	% Change to Re-forecast
Net Sales	$921,722,329	$902,779,253	$917,254,484	4.7%	2.1%	0.5%
Margin Dollars	$354,544,321	$345,284,205	$355,254,631	5.2%	2.7%	0%
Warehouse Inventory Turns	17.29	16.9		2.5%	2.2%	

2006-07 Year in Review

Beer and Special Markets finished the year ahead of plan with net sales of $921.7 million versus a planned target of $902.8 million and last year's sales of $880.6 million. These results were satisfying and hard won given that Beer and Special Markets did not achieve last year's sales targets and the struggles with sales experienced by Special Markets (coolers, cocktails-to-go, flavoured wine drinks, ciders and sake) this fiscal year.

The year began with Beer and Special Markets falling behind in sales against plan during the early spring periods. By mid-summer, however, beer sales were in a solid position, due in part to the unprecedented success of the *We've Got Your Beer* promotion in the summer of 2006, exceeding sales of more than $50 million for beer for the first time.

Special Markets struggled though, lagging significantly in sales to plan and to previous year's sales. A brainstorming summit was organized by the Special Markets team in July 2006 with key suppliers to discuss ideas on how to improve category performance, with the hope this collective effort would impact future sales.

The downtrend in coolers -- both domestic and imported – reflected a global decline in the ready-to-drink market. A review of this global trend was part of the brainstorming session with the trade, as LCBO and suppliers looked at ways to increase sales in this product segment.

As a result of a warm fall and early winter, Beer and Special Markets overall sales remained strong well after the traditional high season was over and were trending slightly ahead of plan coming out of a successful December holiday period. Incremental advertising also helped the category remain relevant in the off-season, particularly with the boost from the Superbowl in January.

The introduction of the Ontario deposit return program, *Bag it Back*, on February 5, 2007, brought some uncertainty, as its potential impact on sales was difficult to anticipate. Sales slowed marginally in early winter, however they finished very strong in the final sales period of the fiscal year with a 12 per cent increase over plan and an 11 per cent increase compared to the previous year's results. Sales even superseded the re-forecasted sales of $917.2 million for Beer and Special Markets for fiscal 06-07 during sales planning for next fiscal.

Other Notable Results

Holiday Gifting

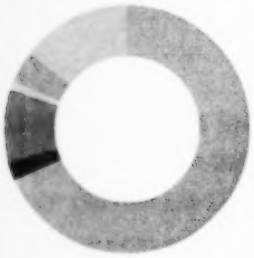
Total net dollar sales were $3,274,699, which represents an increase of 11.1 per cent or $326,649 versus the previous year. The overall sell-through of holiday gifts ended at 91.7 per cent of the 32 gifts taken to market (25 Beer, seven Special Markets).

Special Markets Party Packs

These one-time purchases play a significant role in the product assortment for Special Markets, offering customers a variety of flavours at price savings. The party packs are linked to key holidays and long weekend events when there is more shopping in our stores. This year, seven different party packs were introduced increasing sales by $2.75 million.

Special Markets Share of Net Sales by Set

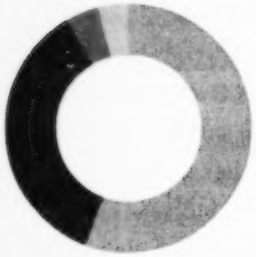
(Growth Compared to Last Year)



Coolers	68.4%	(-2.5%)
Accessories	2.5%	(-13.7%)
Flavoured Wines	9.3%	(+10.7%)
Sake	1.3%	(+2.8%)
Ciders	4.1%	(+25.5%)
Cocktails-to-Go	14.3%	(-5.8%)

LCBO Beer Share of Net Sales by Set

(Growth Compared to Last Year)



Ontario Beer	56.1%	(+4.5%)
Imp. Non-US Beer	35.7%	(+7.5%)
US Beer	4.4%	(+4.7%)
Out-of-Province Beer	3.8%	(+6.4%)

Product Trends: Beer

- Premium imported, locally crafted and value beer growing
- Mainstream beer sales stabilized following years of decline
- Canned beer sales growing – 500 mL import and 473 mL domestic single format
- Single serve options gaining popularity
- Novel and eco-friendly packaging: PET plastic, aluminium cans and minimal labelling

Product Trends: Special Markets

- Health/lifestyle culture: power fruits and unique flavours (pomegranate, blood orange, blueberry)/time-starved consumer
- Energy drinks: vodka-based with guarana, ginseng and naturally-occurring caffeine
- Ready-to-freeze and blender drinks
- Products developed primarily for male consumers: Bacardi Mixx, Rockstar
- New introductions in flavoured wine drinks (i.e. Rossini, Bellini)
- Cocktail trends leading to a focus on convenient solutions for cocktails category: One Pour cocktails
- New eco-friendly packaging: aluminium cans/bottles, PET plastic

2007-08 Sales and Margin Targets and Increase to Last Year

	Planned Sales	Change to LY	Planned Margin	Change to LY
LCBO Beer	$501,356,771	1.6%	$207,654,209	1.2%
Beer to TBS	$241,480,453	6.3%	$65,865,467	7.3%
Special Markets	$199,618,524	1.8%	$91,012,816	0.5%
Accessories	$6,027,878	19.1%	$2,761,681	13.8%
Total BSM	**$948,483,626**	**2.9%**	**$367,293,681**	**2.1%**

Final 06-07 Sales Results

	Actual 06-07 Result	Original 06-07 Plan	Variance to Last Year	Variance to Original Plan
LCBO Beer	$493,245,222	$478,363,708	5.6%	3.1%
Beer to TBS	$227,188,790	$215,804,017	8.4%	5.3%
Special Markets	$196,173,532	$202,560,085	-1%	-3.2%
Accessories	$5,060,311	$5,981,442	-13.7%	-15.4%
Total BSM	**$921,722,330**	**$902,779,251**	**4.7%**	**2.1%**

Final 06-07 Margin Results

	Actual 06-07 Result	Original 06-07 Plan	Variance to Last Year	Variance to Original Plan
LCBO Beer	$205,257,452	$192,115,133	7.5%	6.8%
Beer to TBS	$61,378,750	$58,639,009	8.8%	4.7%
Special Markets	$90,254,754	$92,012,199	-1.2%	-1.9%
Accessories	$2,423,906	$2,517,864	3.5%	-3.7%
Total BSM	**$359,588,585**	**$354,284,205**	**5.3%**	**4.1%**

VINTAGES

Overview

Net Sales	$259.6 million	
Increase Over Last Year	$40.9 million	18.7%
Increase Over Plan	$23.1 million	9.8%
Margin Dollars	$117.5 million	
Increase Over Last Year	$20.9 million	21.7%
Increase Over Plan	$13.0 million	12.4%
Gross Margin as % of Net Sales	45.3%	1.1%
VINTAGES Share of LCBO Net Sales	7%	0.7%
Inventory Turnover - Retail	8.8x	15.3% Improvement
Inventory Turnover - Warehouse	5.1x	3.2% Decline
GMROI - Retail	7.28	20.7%
GMROI - Warehouse	4.21	1.2%

Key Trends

Favourable foreign exchange rates helped moderate fine wine prices during 2006-07. Customers continue to demand value. In fiscal 2006-07, net sales of VINTAGES New World wines and spirits category outperformed sales of the European wine category, generating $132.0 million and $127.6 million, respectively.

VINTAGES is the fine wine and premium spirits business unit of the LCBO. Following its vision, "Discover our Latest," in 2006-07 VINTAGES released 4,530 products into the market through a variety of programs, including Retail releases, Classics Catalogue, Bordeaux Futures, direct marketing, and special events.

VINTAGES continued to make progress in the management of its inventories in 2006-07. Gross Margin Return on Investment (GMROI) increased by 8.5 per cent.

In fiscal 2006-07, 94.9 per cent of VINTAGES net sales were from imported products. France captured 22.3 per cent of net sales, Italy 21.2 per cent, the U.S. 15.3 per cent, Australia 13.3 per cent, New Zealand 5.1 per cent, Chile 3.5 per cent and South Africa 3.5 per cent. Net sales from these countries grew between 11.4 and 36.3 per cent.

VINTAGES also made strides with its Ontario VQA wine sales through expanded promotions and new products, even with a short crop severely impacting VQA wine availability, especially red table wine. The VINTAGES VQA promotion held in September was integrated with Ontario wine promotions.

VINTAGES VQA Category Sales 2006-07

Net Sales	$11.6 million	
Increase Over Last Year	$1.6 million	5.7%
White Wines	$2.5 million	22.5%
Red Wines	$2.3 million	7.6%
Icewine	$6.6 million	1.6%
Rosés	$155 thousand	1.8%
Sparkling	$133 thousand	41.3% Decline

VINTAGES Sells Products Through the Following Programs:

Retail Releases

This is the core of VINTAGES business, making up 63 per cent of sales. Retail sales were $164 million in 2006-07, up by 19 per cent. Every two weeks, more than 125 products were made available in over 200 selected LCBO stores. More than half of the assortment is new to the Ontario consumer.

VINTAGES thematic releases highlight specific countries, regions, sub-regions, producers or varietals, and include educational content tied to the products released. In 2006-07, features included France, Ontario VQA, Argentina, California, New Zealand and Spain.

Wines-of-the-Month

Designed to introduce customers to wines that offer exceptional value. Net sales were $9.4 million – 3.6 per cent of VINTAGES' total business – and 50.8 per cent higher than the previous year.

VINTAGES Benchmark

Provides products considered as "benchmarks" or exceptional examples of a country/region/grape variety or wine style. These selections must provide excellent value.

Arrive in Style

One or two products are featured on the inside back cover of every release circular as gifting solutions for customers.

Discover Ontario VQA

This program features one VQA brand every second release with a full-page focus. The product selection is based on a newsworthy story, including interesting grape varietals, excellent quality and value or accolades and awards. Sales of Discover Ontario VQA were $1.4 million in 2006-07.

ON Tour

Dedicated to the exploration of Ontario VQA wines, this feature, through a double-page spread every second release, showcases a winery, varietal or appellation together with three to five wines. Net sales were $1.6 million in 2006-07.

Food & Drink Discovery

In 2006-07, the six *Food & Drink* "discoveries" came from around the world, including Australia, Argentina, Italy, South Africa and California. Net sales were $2.4 million.

Essentials

Offers a core group of 85 world-renowned and popular brands that are continuously available in the LCBO retail network, 17 of which are Ontario VQA. Total sales of Essentials products were $74.2 million – 28 per cent of VINTAGES' business – and 21 per cent higher than the previous year.

Classics Catalogue

This direct marketing program offers up to 1,000 new and unique products annually, including limited allocations from prestigious estates, acclaimed older vintages and other rarities. The Classics Catalogue accounted for $12.2 million in sales in fiscal 2006-07 – 4.6 per cent of VINTAGES' business.

Bordeaux Futures

VINTAGES offers customers an opportunity to buy fine Bordeaux classified growths as "Futures" before they are bottled, usually at a significant discount to the eventual release price. In 2006-07, net sales reached $8.2 million – 3.1 per cent of VINTAGES' business.

Virtual VINTAGES

Offers our customers the opportunity to buy ultra-premium and rare products, many in larger formats, directly from our suppliers' cellars. These offers are made via e-mail and the Internet and are sold through our VINTAGES Sales and Service Centre. This provides an effective way to expand our assortment. Net sales in 2006-07 were $4.1 million – 1.6 per cent market share.

Events

Events continue to be a key strategic component of VINTAGES business strategy. More than 3,350 people attended VINTAGES events and tastings in 2006-07. These 23 events ranged from small winemakers' dinners for 75 guests to large-scale tastings for more than 450. On-site sales at VINTAGES events were $545,000. VINTAGES also participated in the New Zealand, Australia and California wine shows.

Auction

In November 2006, VINTAGES staged Ontario's fifth commercial wine auction with Ritchie's Auctioneers and Appraisers, giving collectors a rare opportunity to buy or sell fine wines. Total sales exceeded $2.5 million, an increase of 46 per cent from the previous year's auction. More than 98 per cent of the 1,604 lots on offer were sold.

Outlook for 2007-08:

- Net sales projected to increase to $305 million (17.6 per cent)
- New and renovated stores to feature expanded VINTAGES sections
- Continue to demystify VINTAGES and attract new customers
- Margin dollars projected to increase to $138 million (17.5 per cent)
- Sales of Ontario VQA table wines projected to increase by 25 per cent and Icewine by three per cent
- VINTAGES will continue to work with the Retail division to improve the way its products are merchandised
- New programs this year include: launching an Internet-based selling channel – VINTAGES Shop On Line – with up to 750 new products by the end of the year and increasing our assortment of products to serve the needs of Ontario's varied ethnic population
- Continue to evolve VINTAGES Events to enhance customers' experiences
- Hold the sixth commercial wine auction.

Support for Ontario Wine, Spirits and Craft Beer

The LCBO is a strong and proud supporter of Ontario wines, spirits and craft beers and uses displays, promotions, special events and employee development programs to keep local producers in the spotlight.

Promotions, special events and continuing employee training programs highlighted the LCBO's support of Ontario wines, spirits and craft beers in 2006-07.

Ontario wines:

Buy to Fly, a four-week promotion of Ontario wines in LCBO stores, increased sales of Ontario wines by 13.6 per cent over the same period the previous year.

This brought year-to-date sales to 7.4 per cent over the previous year, including a 13.3 per cent increase in VINTAGES sales of Ontario wines and an increase of 7.3 per cent in VQA sales.

The promotion was so successful the Ontario Wine Council congratulated the LCBO on what it called a "terrific result" and commented the "creative and innovative promotion produced a high level of customer excitement and engagement."

Bonus AIR MILES rewards were offered on all Ontario wines and there was extensive advertising and in-store point-of-purchase materials. The promotion was

supported by enthusiastic LCBO employees across Ontario, including a group known as WOW (World of Ontario Wines) Leaders. These are employees in the LCBO's biggest wine stores who provide information and advice to customers and help to ensure they are aware of the excellent quality of Ontario wines.

There are many other programs, including merchandising programs in partnership with the wine industry, to develop ongoing sales programs such as Superstars, a promotion of two Ontario VQA wines every month, VINTAGES VQA Discovery featuring new and unique wines and VINTAGES ON Tour featuring wineries, winemakers and their wines.

The partnership includes co-ordinating marketing plans and identifying new opportunities, such as feature articles in *Food & Drink*, the LCBO's free consumer magazine, and the annual promotion of Ontario wines in September and October.

Following the success of the Craft Winery program, the Go-to-Market program was launched in 2006-07 to help small wineries with limited production build their brand in up to 15 LCBO stores with strong VQA sales. They can choose how many of their wines they wish to offer and which LCBO stores to supply.

The Craft Winery program offers similar encouragement to small to medium-size wineries with limited production at up to 60 LCBO stores.

Sales of Ontario wines grew by 8.9 per cent, or $18.5 million, in 2006-07. Most of this growth was through non-VQA varietals ($13.4 million or 72 per cent).

Ontario craft beers:

The LCBO is also working closely with Ontario Craft Brewers, a marketing association of 29 Ontario craft brewers formed in 2005, whose goal is to win a 12 per cent market share by 2014.

The first-ever Ontario craft beer festival was held at the LCBO Summerhill store in Toronto. The three-day event offered more than 30 premium beers from 16 Ontario craft brewers matched with cuisine from Ontario chefs. There was also information on the Craft Beer Route and visiting craft breweries across Ontario; customers also had a chance to become a "VIP Brewer for the Day" at a participating brewery.

The LCBO offers more than 120 products from Ontario craft brewers. Sales were up by more than 42 per cent in 2006-07.

Ontario craft beers are promoted in-store by enthusiastic employees led by a group of specialists at the LCBO's biggest beer-selling stores known as Beer Guys and Beer Gals, similar to WOW Leaders for Ontario wines.

Spirits:

A promotion called *Whisky Generation* was the most extensive and successful spirits promotion to date. Spirits sales increased by 9.3 per cent over the same time the previous year, including a 6.4 per cent increase in Canadian whisky – a big jump over a year-to-date trend of 1.2 per cent in sales of Canadian whisky.

The promotion was launched at the Whisky Live show in Toronto and included newspaper inserts and a streetcar running in downtown Toronto "wrapped" in promotional images. It also introduced 30 new products, many in the premium and super-premium categories.

A continuing employee training program for Spirits Advocates – employees in the LCBO's biggest spirits-selling stores – helped them keep up-to-date with new products and the latest trends in cocktails.

Sales of domestic spirits increased by 4.2 per cent in 2006-07.

Committed to the Environment

LCBO's environmental strategy is contributing to a greener Ontario.

LCBO's environmental strategy champions environmental stewardship through innovative programs that help reduce the impact of LCBO operations and supplier products on the environment.

In February, 2007, the deposit return program for beverage alcohol containers was launched, which is expected to increase the recycling rate of remaining beverage alcohol packaging waste from 68 per cent to 85 per cent within two years. This program helps divert significantly more glass and other beverage alcohol containers from landfill and results in more glass being recycled into higher-end uses, such as new glass bottles and fiberglass. Consumers pay a deposit of 10 cents or 20 cents, depending on the size of the container, on purchases at the LCBO, agency stores and winery and distillery retail stores, and receive a refund when returning containers to The Beer Store.

One of the other ways the organization is reducing its eco-footprint is through products in alternative packaging — encouraging suppliers to think "outside the box." Before last year, most beverage alcohol consumers probably thought "Tetra" was an extinct dinosaur, but with the launch of French Rabbit in a Tetra Pak container in the summer of 2005, consumers soon learned it's an innovative, lightweight and convenient alternative package, suitable for wine.

Developed jointly by Boisset and the LCBO, French Rabbit became the most successful launch of a new wine in LCBO history. The success of this product created

momentum to introduce a range of new products in innovative package formats that dramatically reduce the amount of package waste generated by LCBO.

Sales of almost 200 alternative packaged products topped $80 million in fiscal 2006-07. Eighteen of the top 20 best new wines this past year were in Tetra Pak containers and brand leaders in the spirits and coolers category moved to more products in PET plastic (polyethylene terephthalate).

Alternative packaging spread through every major product category from every major country of origin, to more than 200 products of various sizes, including Ontario where the first two Tetra Pak plants were built to support this domestic production. By offering consumers new alternative packaging choices, LCBO met its goal of eliminating 10 million kilograms of packaging waste per year — a full two years ahead of schedule. LCBO customers appreciated the fact that less packaging benefits the environment in many ways, including reducing landfill and reducing the amount of fossil fuels emitted during transport, compared to heavier materials such as glass.

Environmental Initiatives

In fiscal 2006-07, LCBO's environmental strategy focused on a number of other important initiatives to reduce its "footprint."

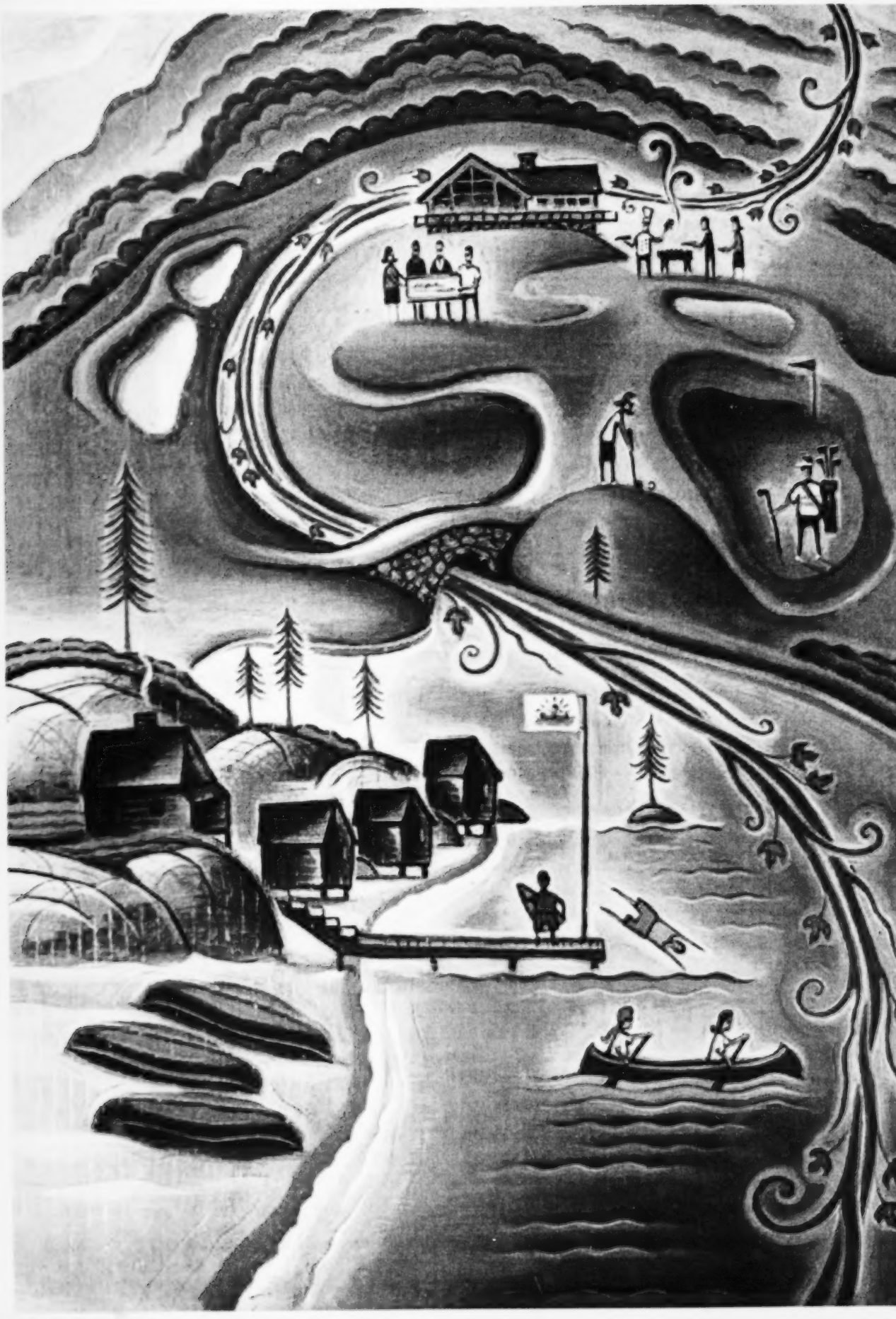
- LCBO continues to take steps to reduce its energy and utility consumption by 10 per cent per year. Beverage alcohol suppliers are encouraged to minimize packaging and LCBO recycles corrugated cardboard, fine paper, polystyrene, newspapers, batteries, printer cartridges, data tapes and other materials. As well, LCBO is working to reduce energy use in its facilities to lower greenhouse gas emissions.

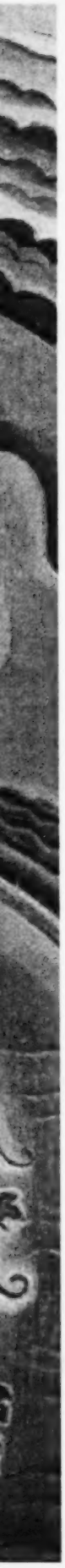
- Since 2001-02, the LCBO has contributed $5 million a year to Stewardship Ontario to support the Blue Box program and has helped to establish new markets for post-consumer coloured glass. LCBO plans to contribute an additional $5 million per year over the next two years to help offset transition costs associated with the implementation of the deposit return program.

- Through its Natural Heritage Fund, LCBO, with the help of its suppliers, has raised almost $2 million for projects to restore and rehabilitate Ontario wildlife habitat. This includes *Bring Back the Salmon*, which was a partnership launched in April 2006 with Banrock Station Wines and the Ontario Federation of Anglers and Hunters. This restoration project will see the return of Atlantic salmon to Lake Ontario after its local extinction over 100 years ago, and improve water quality and habitat throughout the Lake Ontario watershed.

- Cloth envirobags are available in LCBO stores in place of disposable shopping bags and 50 cents from the sale of each bag, together with proceeds from other fundraising efforts, go to the LCBO Natural Heritage Fund. LCBO also distributed 100,000 free, reusable *Bag it Back* bags in 2006-07 and is offering other reuseable bags for sale in 2007.

- LCBO is working on a number of new initiatives that will ensure it achieves ahead of schedule the government's goal of reducing plastic bags by 50 per cent by 2012.





Caring for the Community

Successful retailers today understand consumers are making buying decisions based on their values. The LCBO always strives to deliver programs and initiatives that reflect our customers' values.

Committed to Social Responsibility

Retailers today need to understand consumers are making their buying decisions based on their values. The LCBO has always been committed to programs and initiatives that reflect our customers' values and the values of the communities in which we do business.

When we ask Ontarians each year what they expect most of the LCBO, they consistently tell us that preventing sales to minors and intoxicated persons and promoting responsible drinking are among their highest priorities. And, each year their social responsibility expectations grow. In fiscal 2006-07, 91 per cent of customers polled said control of sales to minors was their highest expectation of the LCBO.

The same trend in value-based decision-making applies to the increasing importance employees place on working in an ethical workplace, and it's certainly true that LCBO employees are proud to be responsible retailers. The ability to prevent

sales to minors and intoxicated adults ranked as the highest source of pride with staff when we conducted our most recent employee attitude survey. LCBO employees care about our customers: vigilance at checkouts contributes daily to public and community safety and to the LCBO's reputation as a responsible retailer.

Challenge and refusal numbers climb

LCBO employees challenged a record 1.8 million customers in fiscal 2006-07 who appeared to be underage, intoxicated or were suspected of trying to buy beverage alcohol for a minor or intoxicated person – almost six per cent more than the previous year. Arising from those challenges, almost 123,000 potential customers were refused service – a 10 per cent increase. Of those, 82 per cent were refused because they couldn't prove they were of legal drinking age.

Two new posters were developed in 2006-07 to reinforce LCBO's commitment to Challenge and Refusal. Called *How Old Do You Think I Am?*, the posters served two purposes: to help customers in LCBO stores understand why LCBO employees ask for ID if customers look 25 or younger; and to help reassure parents of children under 19 that LCBO retail employees are doing everything they can to prevent the sale of alcohol to minors.

Rewards for good behaviour

In 2006-07, the LCBO stepped up its efforts to encourage responsible consumption by launching its first-ever contest to promote safe and sober driving and responsible hosting. The contest evolved from LCBO's 2006-07 social responsibility TV campaign, entitled *Lonely/Reunited*, which urged people to prevent drinking and driving – any way they can. *Lonely/Reunited* is the LCBO's eighth campaign co-sponsored with MADD Canada, and consists of two related 30-second television commercials that provide workable solutions for the very real situations that people face at the end of an evening of socializing and drinking.

The contest offered the chance to win donated prizes of a car, a luxury trip to France or one of 15 day trips to Ontario wine country for correctly answering three questions about the responsible consumption and sale of beverage alcohol. Nearly 30,000 Ontarians saw the contest promoted in stores or in *Food & Drink* magazine and entered the contest, and consequently were actively engaged in thinking about ways individuals can help to prevent impaired driving.

New TV ad campaign in development

Lonely/Reunited, LCBO's social responsibility TV commercials, aired during the weeks leading up to long weekends and the holiday season in fiscal 2006-07. Viewer feedback was universally positive, and in fact one other Canadian liquor jurisdiction has retrofitted the ad for its own use.

A new multi-media campaign was also being developed for 2007-08 during last fiscal. Stay tuned for the evolution of the message: Any way you stop a friend from drinking and driving is the right way.

BYID card continues to grow

LCBO's BYID (Bring Your Identification) card continues to grow in circulation with more than 41,000 cards issued to date. Last fiscal year, more than 4,300 new security enhanced cards were issued. LCBO's BYID card is one of the five forms of proof of legal drinking age identification prescribed under Ontario's *Liquor Licence Act*. It is especially useful for Ontarians who do not have an Ontario driver's licence or other form of photo ID.

Charities receive $850,000 from LCBO fundraising

Province-wide, LCBO customers helped to raise more than $330,000 for the charities selected for the Donation Box Program in 2006. In addition, LCBO raised $411,000 for the United Way Campaign in 2006, and $111,000 for Camp Oochigeas – a summer camp for children with cancer. In total, more than $850,000 was raised to help others.

Much more difficult to measure is the impact of the many individual stores and their employees who raise funds and awareness in the communities where they live and work. All across Ontario, LCBO employees hold barbeques, sell raffle tickets, host tournaments—even shave their heads—to raise money for local causes and charities such as hospitals, food banks, families affected by tragedy, and schools.

Quality Assurance continues to ensure products are safe to drink

Almost all products sold in LCBO stores must first be tasted, tested and certified by the LCBO's Quality Assurance (QA) laboratory. (VINTAGES tastes and approves the products it sells.) This means they are safe to consume, are authentic and meet the LCBO standards, which are based on Canada's *Food and Drugs Act* and *Consumer Packaging and Labelling Act* and their related regulations. The lab is world-renowned and meets the high standards set by the Geneva-based International Orga-

nization for Standardization. It is registered under ISO 9001:2000 as well as under ISO/IEC 17025, a designation specific to chemical laboratories.

In fiscal 2006-07, the QA department conducted a record-high 434,333 tests on 18,519 products. As well, 5,004 products were tasted to ensure they met high standards set by the LCBO and, where applicable, the Vintners Quality Alliance Ontario (VQAO). QA staff also reviewed 3,910 labels and 9,648 shipping cartons.

Quality Assurance performed many other functions for the LCBO and its stakeholders in fiscal 2006-07:

It supported the VQAO by conducting tastings, packaging reviews, laboratory analyses and quality assurance audits, and by helping members develop and adhere to the industry's technical standards.

It also provided for a fee services to some of the world's leading beverage alcohol manufacturers, suppliers and agents as well as cork, package and closure producers and universities and colleges.

Looking ahead

LCBO is developing a new social strategy, above and beyond current social responsibility efforts, which champions and builds on the good works being done throughout the organization in the core areas of responsible retailing, environmental sustainability, quality assurance and serving the communities in which we work.

Our goal is for customers, staff and stakeholders to see their value systems mirrored at all points of contact through full integration of social responsibility into the LCBO shopping experience. As a result, customer perceptions of LCBO as a socially responsible retailer will better match their expectations of us.

Supply Chain

Supply Chain Improvements Win Awards

The success of the LCBO's efforts to make its supply chain more efficient and cost-effective continued to be recognized in 2006-07 when the Retail Council of Canada awarded the LCBO two Excellence in Retailing Awards for improvements to the supply chain:

- The Advancement in Retail Supply Chain Award for the *Localized Assortment Strategy* program to provide a more store-specific, customized product assortment. This entailed putting more top-selling brands on shelves by reducing the number of slower-selling products, while at the same time providing a good selection of products of interest to the local community.

  For example, some stores sell a high proportion of spirits and need to stock a wide variety of such products, while other stores sell more wine or beer. Each store received a customized diagram called a planogram showing where products were to be displayed, along with computer-based tools to manage it.

  Merchandising was made more consistent across all stores to make the best use of shelf space and ensure product displays have maximum impact.

- The Retail Employee Training Award for *The Supply Chain: At Work...It Works* program that introduced supply chain best practices to stores. This was done by training staff in new processes such as door-to-floor, engaging customer service, clearance and close-out procedures, shelf management and inventory ordering and replenishment.

  Operational efficiency improved and staff have more time to spend with customers. There have also been improvements in sales growth, productivity, inventory management and customer satisfaction.

These awards followed a Retail Technology Award from the Retail Council of Canada two years earlier for the LCBO's Collaborative Planning, Forecasting and Replenishment program developed jointly by LCBO Supply Chain and Sales and Marketing.

This program combines sales forecasts developed jointly by the LCBO, suppliers and agents and tracks them against sales. It helps ensure a continuous stream of products to get the right product in the right place at the right time, improving customer satisfaction, increasing product turns – the number of times a product is replaced on the shelf – and increasing sales and profits for suppliers and the LCBO.

Improvements to the supply chain produce major benefits

Annual sales at the LCBO have increased by more than $1 billion since 2001-02. During this time:

Net inventory investment has been reduced from $122 million in 2001 to $89 million in 2006-07

Inventory turns have increased from 5.3 in 2001 to 7.5 in 2006-07. If inventory turns had not improved from 5.3, $112 million in additional inventory would have been required

Margin – what the LCBO retains after paying for products – has improved by $582 million.

Without these improvements, more warehouse space would be needed, operating costs in stores and warehouses would be higher and there would be less money to invest in new stores and renovations.

The awards recognizing the LCBO's improvements to the supply chain join more than 200 awards won by the LCBO in recent years for store design, staff training and development, innovative retail practices, marketing and communications. These included the Retail Council of Canada's Innovative Retailer of the Year Award (twice) and Socially Responsible Retailer of the Year Award.

Risk Management

Every business faces risks, such as a breach of computer systems or a downturn in the economy, and must make plans to manage them.

At the LCBO, in 2006-07, we took steps to identify various risks to the organization and assess these potential threats to our business. Risks identified ranged from changing customer demographics to cross-border issues and its effect on tourism.

An Enterprise Risk Management Group was set up to identify risks, how likely they were to occur, how they can be controlled and what could be done to lessen their impact if they occurred. More than a dozen focus groups with Senior Team members and department managers at head office were held and identified business risks, from possible to unlikely, serious to negligible. All divisions were involved in these risk management brainstorming sessions and risks were tied directly to divisional business plans.

Thirty-seven risks were identified based on the probability of them happening and what the consequences might be. These risks were then further narrowed down to the top 16, which were discussed by LCBO leaders.

Each division within the LCBO knows their business risks best and are managing them, day-to-day. This project's goal is to link business risks with business objectives, to help set priorities and develop contingency or mitigation plans.

Looking ahead, risk management at the LCBO will be an on-going process; risk assessment – and the response to identified risks – is now part of each department's business continuity plan. The Enterprise Risk Management project is there to monitor progress, measure it and reassess it from time to time. The key is to be pro-active rather than reactive. As new risks are identified, LCBO will ensure these are assessed, mitigated and monitored.

Management Discussion & Analysis

Beyond the Numbers

Canadian securities regulations require public companies to include a discussion of operating results in the annual report, along with annual financial statements. As a provincial government enterprise, LCBO is not subject to these regulations. However, we have included this discussion to increase understanding of our operations and ensure disclosure of our results to the widest possible audience. This section of the LCBO Annual Report explains the financial results for the past year and provides background for evaluating its performance.

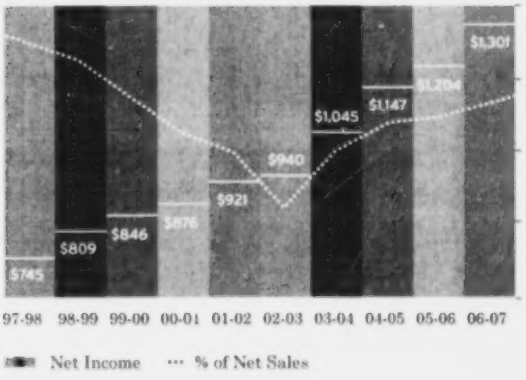
Highlights (in $000)

	2005-06	2006-07	% Change
Dividend to Government	1,200,000	1,279,700	6.6%
Net Sales & Other Income	3,682,919	3,922,648	6.5%
Operating Expenses	592,963	632,750	6.7%
Net Income	1,204,344	1,300,601	8%

Net Income

The LCBO posted its highest net income ever in 2006-07, totalling $1.30 billion and representing a $96.3 million increase over the previous year. Net income as a percentage of net sales improved to 33.4 per cent from 32.9 per cent a year ago and exceeded plan by 0.5 per cent due to enhanced margins. The following chart gives a 10-year history of LCBO net income and net income as a percentage of net sales.

Net Income ($000,000) and as Percentage of Net Sales



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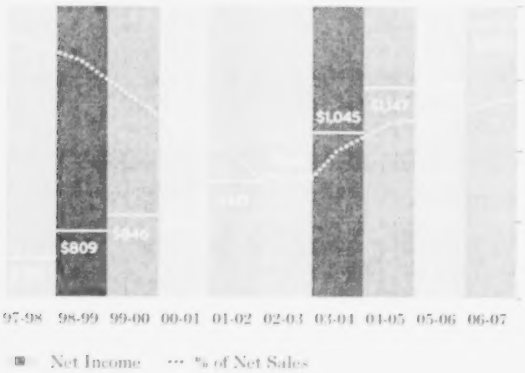

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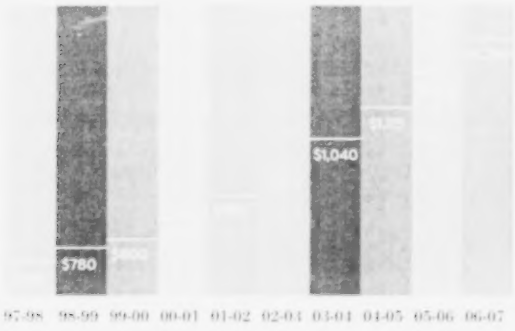
Dividend

The LCBO transferred a record $1.280 billion dividend to the provincial government in 2006-07, excluding all taxes. This is an $80 million increase over last year. It was the 13th straight year the LCBO increased its dividend to government, the 12th straight record year and the fourth consecutive dividend of more than $1 billion. The following chart gives a 10-year history of LCBO dividends transferred to the government of Ontario.

Dividend ($000,000)



Since 1997-98, the dividend has grown by 72 per cent or $535 million. Over the past 10 years, the LCBO has transferred $9.690 billion in dividends to the provincial government.

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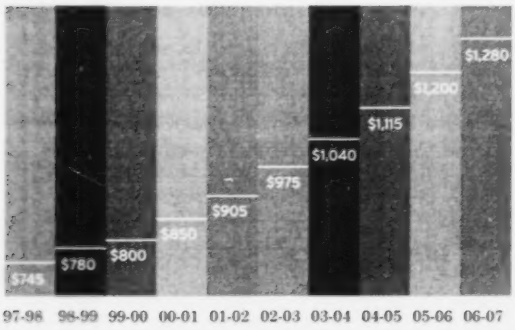

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The LCBO dividend does not include Provincial Sales Tax (PST), which amounted to $363 million in 2006-07.

These tables show the breakdown of $1 in net sales and how LCBO profits are shared between various levels of government and the breakdown of $1 in net sales.

LCBO Payments to Government

Dividend	60.6%
Federal - Excise & Duty	15.8%
Federal - GST	5.6%
PST	17.2%
Municipal	0.7%

Breakdown of $1 in Net Sales

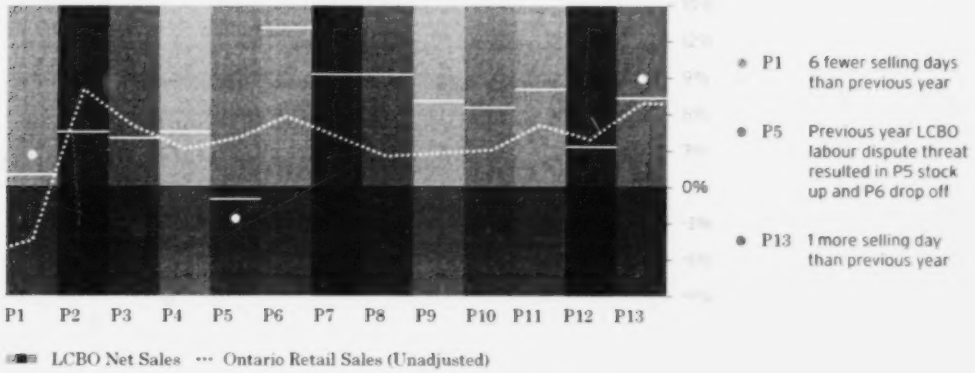
Product Cost	51.1%
Net Income	33.4%
Retail & Marketing	10.9%
Administration & Other	2.6%
Warehousing & Distribution	2.0%

LCBO's external environment

LCBO sales growth of 6.4 per cent in fiscal 2006-07 was stronger than the 4.0 per cent growth rate for total retail sector sales in Ontario during the same period. Economic conditions in Ontario were stable in terms of their impact on beverage alcohol sales, with unemployment rates falling to 6.3 per cent despite more tepid economic growth of 1.3 per cent in 2006.

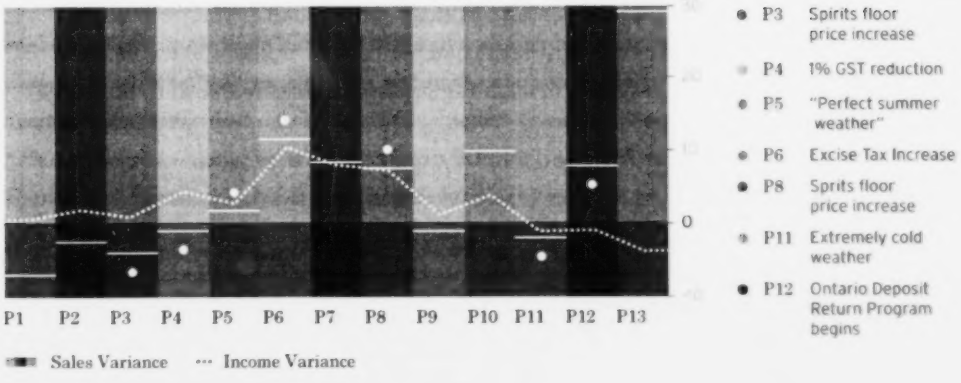
The following chart shows LCBO sales growth versus Ontario retail sales during the year.

Growth Versus Ontario Retail Sales


0%
P1 6 fewer selling days than previous year
P5 Previous year LCBO labour dispute threat resulted in P5 stock up and P6 drop off
P13 1 more selling day than previous year
P1 P2 P3 P4 P5 P6 P7 P8 P9 P10 P11 P12 P13
LCBO Net Sales
Ontario Retail Sales (Unadjusted)

Note: Ontario retail sales are calculated using unadjusted monthly sales reported by Statistics Canada and translated into LCBO fiscal period equivalents based on number of selling days. LCBO's fiscal year is divided into 13 selling periods.

LCBO Sales and Income Fluctuations to Plan (in $000)


0
P1 P2 P3 P4 P5 P6 P7 P8 P9 P10 P11 P12 P13
Sales Variance
Income Variance
P3 Spirits floor price increase
P4 1% GST reduction
P5 "Perfect summer weather"
P6 Excise Tax Increase
P8 Sprits floor price increase
P11 Extremely cold weather
P12 Ontario Deposit Return Program begins

The LCBO benefited from ideal summer weather and record holiday sales. Net income was bolstered by spirits floor price increases in periods 3 and 8 as well as a federal excise tax increase in period 6 to offset the one percentage point reduction in the GST effective July 1, 2006. Expenses related to the Ontario Deposit Return Program, introduced in February of 2007, slightly impacted net income at the end of the year.

Sales by Region

Each of LCBO's four retail regions posted net sales growth better than budget in fiscal 2006-07, with improvement of at least five per cent over 2005-06 levels. The following table shows how net sales in each region fared compared both to plan and the previous year.

Region	2006-07 (000s)	Change From 2005-06	Variance From Plan
Northern	466,489	5.3%	0.8%
Eastern	789,453	6.5%	1.6%
Central	1,210,914	7.4%	1.6%
Western	903,828	5.9%	0.9%

Comparable store sales

"Comparable stores" are defined as stores that have been open in their present location for more than two years. "Non-comparable stores" include stores open less than two years and closed stores. In 2006-07, non-comparable stores witnessed net sales rise 20.7 per cent over the year before, almost four times the 5.3 per cent growth posted by comparable stores.

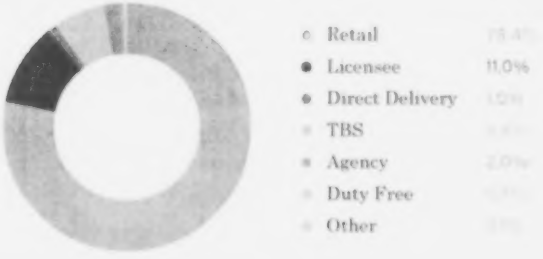
Sales by Channel

LCBO retail sales, defined as sales to home consumers, increased by 6.3 per cent over last year to $3.05 billion. Retail sales as a share of total LCBO sales decreased slightly from 78.6 per cent to 78.4 per cent primarily due to improvements in the licensee channel.

Licensee sales grew by 9.3 per cent in 2006-07, to $428 million from $391 million. The licensee channel, which comprises hotel and restaurant sales, was bolstered by $24 million during the year due to the introduction of the six per cent licensee mark-up in period 11 of the previous fiscal year, replacing the previously established gallonage fee of 12 per cent on wine and spirits and $2.64 a hectolitre on beer. The collected fee was previously remitted to the Alcohol and Gaming Commission of Ontario.

LCBO wholesale sales to The Beer Store (TBS) were up 6.5 per cent during the year. Sales to TBS as a percentage of total LCBO sales remained static at 6.8 per cent.

Breakdown of LCBO Sales by Channel



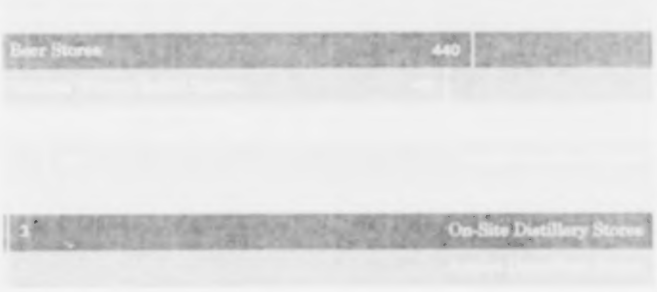
LCBO sales to duty-free stores at land border points decreased 13.5 per cent from last year primarily due to fewer trips to Ontario by American visitors. Contributing factors to this decline were the high price of gasoline and an unfavourable exchange rate. The addition of five new agency stores in 2006-07 contributed to agency channel sales of $78 million, an increase of 7.3 per cent over the previous year. Agency stores account for 2.0 per cent of LCBO sales.

The Ontario winery direct delivery program, which allows wineries to deliver their products directly to licensees instead of transferring them through the LCBO, continued to grow, increasing by 4.5 per cent overall in terms of net sales. In 2006-07, direct delivery sales represented 16.6 per cent of the total value of the licensee market for wine, compared to 16.2 per cent the previous year.

LCBO in the shared marketplace

The LCBO operates in a shared marketplace along with other retailers of beverage alcohol, including The Beer Store (TBS), which is owned by Molson-Coors, Labatt (InBev SA) and Sleeman (Sapporo). Ontario winery retail stores (WRS), on-site brewery stores, agency stores, duty-free operators and on-site distillery stores. As of March 31, 2007, there were 1,711 outlets selling alcohol in Ontario.

Ontario's Alcohol Marketplace by Number of Outlets (as of March 31, 2007)



Note: When the LCBO's 623 stores and Ontario's 199 agency stores are combined, the total market share is approximately 46.8 per cent.

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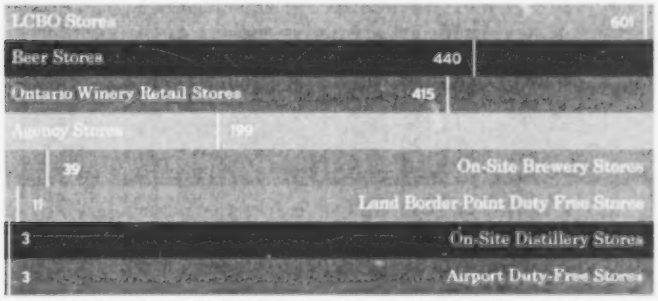


Note: When the LCBO's 601 stores and Ontario's 199 agency stores are combined, the total market share is approximately 46.8 per cent.

Changes in market share

The total Ontario beverage alcohol marketplace, which includes LCBO, TBS, WRS, as well as other legal, homemade, de-alcoholised beer and illegal channels, amounted to over $8.0 billion in gross sales in 2006-07. The LCBO's market share by value increased from 49.4 per cent in 2005-06 to 50.2 per cent this year.

The Ontario wine market increased by 5.2 per cent in 2006-07 in terms of volume sales. Imported wine now holds a 60.9 per cent share of wines sold by the LCBO, up from 60.2 per cent the year before. Ontario wine sales, sold both though the LCBO and through winery retail stores as well as delivered directly by Ontario wineries, declined to 38.6 per cent from 39.2 per cent in the previous year. The continued growth in New World wine sales contributed to the increase in imported wine sales.

Direct delivery wine sales, pertaining to the 1999 policy change that allows wineries to deliver products directly to licensees, showed no change in volume market share at 2.4 per cent during the year.

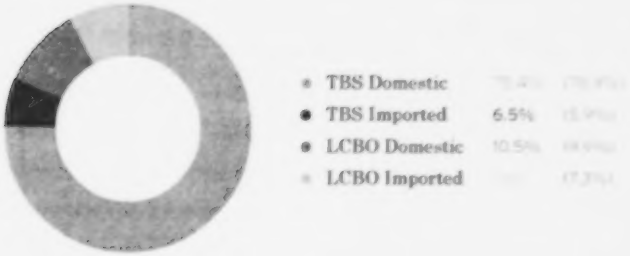
Wine Volume Market Share, 2006-07

(2005-06 Shares in Brackets)

Beer sales volume in Ontario remained essentially flat in 2006-07, down 0.27 per cent. LCBO beer sales grew by 4.8 per cent, excluding sales to TBS, compared to a 1.3 per cent decline for TBS. As a result, LCBO's volume market share increased to 18.1 per cent in 2006-07 from 17.2 per cent a year earlier, while TBS's volume market share slipped to 81.9 per cent from 82.8 during the same period. Consumers continue to be split between a preference for premium-priced imported products or value-priced beer in the 24 bottles per case format.

Beer Volume Market Share, 2006-07

(2005-06 Shares in Brackets)



Gross Margin

Gross margin was 7.4 per cent higher than last year, up to $1.90 billion in 2006-07 from $1.77 billion in 2005-06, and exceeded plan by 2.5 per cent. Gross margin expressed as a percentage of net sales came in at 48.9 per cent, better than plan of 48.4 per cent and 0.4 percentage points better than the previous year. The improvement can be attributed to the first full year of the licensee mark-up, spirits floor price increases in periods 3 and 8, and the unplanned impact of higher excise taxes beginning in period 6.

Wine was the largest contributor to the increase in the gross margin, accounting for 46.6 per cent of the increase, followed by spirits at 39.6 per cent. Beer accounted for 13.8 per cent while non-liquor products made up the remaining amount. LCBO receives the highest margin per dollar of net sales on its spirits products at 57.4 cents per net sales dollar, while wine and beer margins are 49.2 cents and 36.5 cents, respectively. (Note: These margin numbers include sales through VINTAGES and therefore may not agree with business unit margins in the Product Trends sections of this report.)

Spirits continues to account for the largest proportion of gross margin at just under 47 per cent, which is higher than its sales share owing to the higher margins on spirits products. Wines, Beer and Special Markets and VINTAGES represented approximately 28 per cent, 19 per cent and six per cent of margin, respectively.

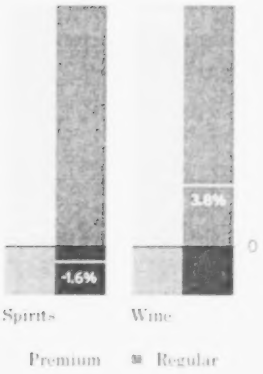
Share of Margin by Buyer

LCBO's *Discover the World* vision and the trend to premium products contributed to upward movement in LCBO gross margin. This is clearly evidenced by the growth of VINTAGES, which witnessed year-over-year sales growth of 18.7 per cent and expanded its share of margin by 0.8 percentage points.

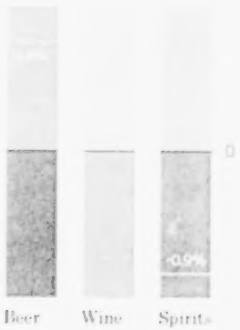
The trend of the last several years toward premium products continued in 2006-07. For spirits, products priced higher than $30 for a 750 mL bottle increased by 2.3 per cent during the year; this compared to a decline of 1.6 for other spirits products. Premium wine, defined as having a price of $15 or more, increased by 15.8 per cent in 2006-07, compared to 3.8 per cent for all other wines. The trend toward premium products extends to beer as well, but this has no effect on LCBO margins because beer mark-ups are flat: they do not change along with the product's value, as is the case with wine and spirits.

Beer sales as a share of total LCBO sales volume increased from 48.8 per cent to 49.6 per cent, while wine increased from 28.9 per cent to 29.2 per cent. Spirits' share of volume decreased 1.2 per cent, to 21.1 per cent. However, improvement in sales of higher-margin products helped offset much of the impact of the change on LCBO's margin.

Premium Product Sales Grow at a Faster Rate



Change in Share of LCBO Sales Volume



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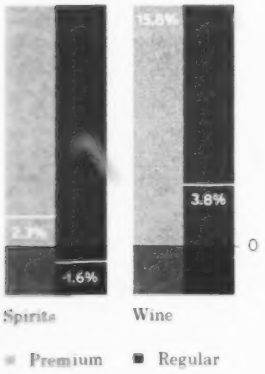
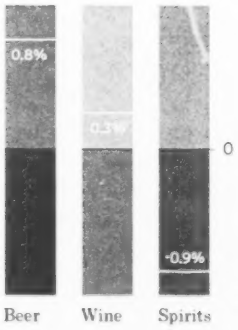
Premium Product Sales Grow at a Faster Rate

(Year Over Year Volume Growth)



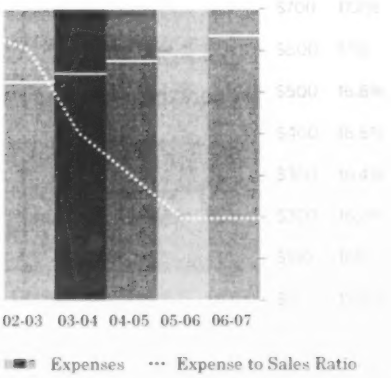
Change in Share of LCBO Sales Volume



Expenses

Expense control was effective throughout most of the year, but was impacted by new charges incurred during the fiscal year, namely $8.3 million related to the Ontario Deposit Return Program and more than $12 million in employee benefits obligations resulting primarily from the establishment of a provision for vacation and MCO liabilities and retirement benefits. By the end of 2006-07, LCBO expense-to-net-sales ratio remained at the previous year's level of 16.2 per cent. Excluding the deposit return program charges and the provision for employee benefits, the expense-to-net-sales ratio would have improved to 15.7 per cent, 0.4 percentage points below plan. Overall expenses were $633 million compared to $593 million the previous year. Year-over-year expense growth is primarily attributable to wage increases from collective bargaining and salary increases from a cost of living adjustment.

Expense Trend ($000)



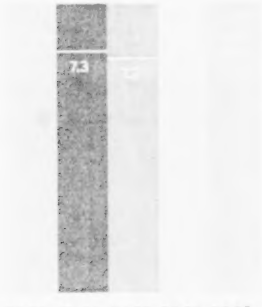
Head office expenses were 5.3 per cent below budget, growing 3.1 per cent from the previous year to $113 million. Warehouse expenses increased by 2.7 per cent to just under $50 million, and were 0.2 per cent under plan. Store expenses grew by 3.7 per cent to $347 million, 0.2 per cent over plan, due to salaries and benefits and non-controllable expenses such as real estate costs and utilities charges. The growth in store expenses was well below the growth in sales.

Inventory

Total inventory turns declined slightly during the year, decreasing to 7.5 from 7.6 a year ago and lower than the planned turnover of 7.7. Beer inventory turns, excluding VINTAGES, remained steady at 16.4, while spirits turns rose from 8.4 to 8.5 and wine turns increased from 6.1 to 6.2. VINTAGES inventory turns improved from 3.1 to 3.2. The decline in total turns resulted from the mix within inventory with VINTAGES having a higher percentage compared to last year.

Wholesale inventory turns including VINTAGES fell to 12.3 in 2006-07, down from 12.5 last year and below the planned figure of 12.9. Higher levels of inventory due to valuation increases created with excise tax changes impacted this ratio. Retail inventory turns were 14.2 in 2006-07, better than 13.9 in 2005-06 and the 14.0 plan.

Total Inventory Turns



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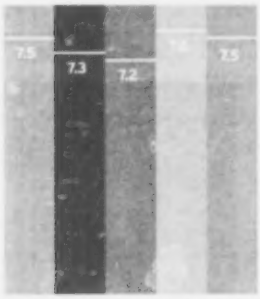

Financial and Operating Ratios

Income statement ratios in 2006-07 compared favourably to the previous year. Administrative expenses stayed fixed at 1.5 per cent of net sales, the same as the previous year and plan. Operating expenses also improved from 2005-06, from 12.0 per cent to 11.6 per cent, better than the planned amount of 11.9 per cent. These improvements are the result of higher net sales and expense control during the year.

Gross margin as a percentage of net sales surpassed the previous year's ratio of 48.5 per cent and the planned ratio of 48.4 per cent, coming in at 48.9 per cent in 2006-07. This is due to the continued sales growth in higher-margin spirits and wine products.

Productivity Ratios

To help track expenses and identify where improvements are occurring or are needed, the LCBO sets targets for many productivity ratios each year. For instance, the store expenses-to-sales ratio shows what percentage of net sales is needed to pay retail expenses such as salaries, store rents and other expenses. A declining store expenses-to-sales ratio means that employees are becoming more productive.

Retail – Financial and Operating Highlights

	02-03	03-04	04-05	05-06	06-07
Store Salary to Sales	7.3%	7.1%	7.0%	7.0%	6.8%
Store Expenses as % of Sales	10.4%	10.3%	10.4%	10.3%	10.0%
Store Salary Per Unit Sold	$0.77	$0.78	$0.76	$0.76	$0.74
Store Expenses Per Unit Sold	$1.10	$1.13	$1.13	$1.12	$1.08
Unit Sales Per Hour	31.4	32.3	33.5	34.9	36.7
Sales Per Customer	$28.51	$29.38	$30.80	$31.57	$32.41
Sales Per Square Foot	$1,755	$1,800	$1,859	$1,816	$1,898

For the retail channel, store salaries as a percentage of net sales improved to 6.8 per cent in 2006-07, which was better than the plan of 6.9 per cent and 7.0 per cent in 2005-06. Likewise, store salaries per unit sold, at $0.74, were $0.02 favourable to the prior year value and below plan of $0.77.

Store expenses as a percentage of sales were 10.0 per cent, better than the previous year as well as the planned proportion of 10.1 per cent. Store expenses per unit sold came in at $1.08, outperforming plan of $1.13 and improving from the 2005-06 value of $1.12.

Sales per customer have increased significantly over the past five years, rising from $28.51 in 2002-03 to $32.41 in 2006-07, missing the forecast of $32.71. These results highlight the trend toward higher quality products. Retail space rationalization has helped the sales per square foot figure increase by eight per cent over the last five years, rising to $1,898, well above the $1,816 figure last year.

Average Sales Per Customer

Average Sales Per Square Foot

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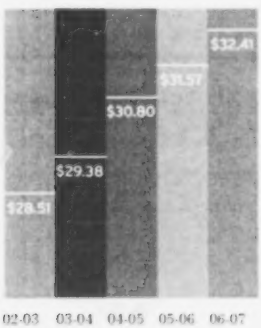
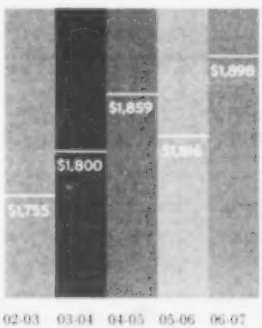


Average Sales Per Square Foot



Warehouse salary cost per case rose $0.01 to $0.94 compared to 2005-06, but remained below the plan of $0.96. Warehouse total cost per case decreased to $1.14 versus $1.16 a year earlier. Distribution cases per hour improved to 68 in 2006-07, better than the target and last year amount of 64.

Logistics – Financial and Operating Highlights

	02-03	03-04	04-05	05-06	06-07
Warehouse Salary Cost Per Case	$0.83	$0.82	$0.90	$0.93	$0.94
Warehouse Cost Per Case	$1.10	$1.03	$1.11	$1.16	$1.14
Distribution Cases Per Hour	66	64	62	64	68
Distribution Expenses Per Case	$0.64	$0.62	$0.66	$0.68	$0.67
Freight Expense Per Case	$1.26	$1.40	$1.52	$1.67	$1.73
Inbound Freight As % of Sales	2.2%	2.5%	2.5%	2.7%	2.8%
Outbound Freight as % of Sales	0.7%	0.7%	0.7%	0.7%	0.7%

Capital Expenditures

As part of our five-year strategic plan to help customers *Discover the World* of beverage alcohol, most of the capital budget was again allocated to upgrading more retail stores to current corporate standards.

Capital Expenditures (in $000s)

	02-03	03-04	04-05	05-06	06-07
Retail	45,497	31,896	27,981	39,650	38,292
Retail Store Development & Real Estate	1,072	351	1,639	1,310	1,025
Information Technology	12,758	6,877	6,917	7,980	7,320
Logistics	11,848	10,158	6,487	2,464	3,332
Marketing Programs	1,565	1,171	1,355	666	1,225
Other Administrative Divisions	2,321	2,981	3,084	2,466	3,022
Total Capital Expenditures	**75,061**	**53,434**	**47,465**	**54,535**	**54,217**

Looking Ahead

The 2007-08 fiscal year is expected to be one of continued improvement. Net sales are forecast at $4.1 billion, 4.4 per cent higher than 2006-07. Gross margin is forecast to improve by 4.6 per cent to just under $2.0 billion.

Gross margin as a percentage of net sales is forecast to be 49.0 per cent, an improvement over the 2006-07 rate of 48.9 per cent, due to ongoing changes in product mix. Operating income is forecast to rise by 3.9 per cent to $1.3 billion. This will be achieved through planned sales initiatives and continued expense control.

Ongoing inventory reduction programs and efficiency gains in the flow of product through the LCBO warehouse and retail store systems should help increase inventory turns. Retail inventory turns are expected to rise to 14.4 per year while warehouse turns are forecast to improve to 12.5 per year.

The LCBO's dividend to the government of Ontario is forecast to increase for a 13th straight year to a new high of $1.325 billion, $45 million higher than last year.

Net income is forecast to grow to $1.344 billion, an increase of $43 million.

Responsibility for Financial Reporting

The accompanying financial statements of the Liquor Control Board of Ontario have been prepared in accordance with accounting principles generally accepted in Canada, and are the responsibility of management. The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The financial statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 13, 2007.

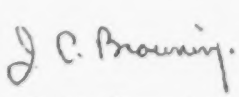
Management is responsible for the integrity of the financial statements and maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the audit and governance review committee of the board.

The board, through the audit and governance review committee, is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The audit and governance review committee, comprised of three members who are not employees/officers of the LCBO, generally meets periodically with management, the internal auditors and the Office of the Auditor General to satisfy itself that each group has properly discharged its respective responsibility.

The financial statements have been audited by the office of the auditor general. The auditor's responsibility is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The auditor's report outlines the scope of the auditor's examination and opinion.

On behalf of management:

N. Robert Peter
President and Chief Executive Officer



J. Alex Browning
Senior Vice President, Finance and Administration, and Chief Financial Officer

June 13, 2007

Auditor's Report

To the Liquor Control Board of Ontario
and to the Minister of Public Infrastructure Renewal

I have audited the balance sheet of the Liquor Control Board of Ontario as at March 31, 2007 and the statements of income and retained income and cash flows for the year then ended. These financial statements are the responsibility of the Board's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Board as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 13, 2007

Jim McCarter, CA
Auditor General, Licensed Public Accountant

Financial Statements

For the Year Ended March 31, 2007

Balance Sheet – As at March 31, 2007 ($000)

Assets	2007	2006
Current		
Cash and cash equivalents	135,785	108,530
Accounts receivable, trade and others	24,042	20,520
Inventories	320,675	285,817
Prepaid expenses	20,017	13,038
	500,519	427,905
Long-term		
Capital Assets (Note 5)	233,073	228,702
	733,592	**656,607**

Liabilities & Retained Income	2007	2006
Current		
Accounts payable and accrued liabilities	361,785	320,193
Current portion of accrued benefit obligation (Note 3)	11,943	5,323
	373,728	325,516
Long-term		
Accrued benefit obligation (Note 3)	48,983	41,111
Retained income	310,881	289,980
	733,592	**656,607**

Commitments and Contingencies (Notes 6 and 8)

See accompanying notes to financial statements.

Approved by:

Chair

Board Member, Chair
Audit Committee*

Statement of Income & Retained Income – Year Ended March 31, 2007 ($000)

	2007	2006
Sales and other income	3,922,648	3,682,919
Cost & Expenses		
Cost of sales	1,989,297	1,885,612
Retail stores and marketing	423,276	400,443
Warehousing and distribution	79,553	76,072
Administration	80,688	67,349
Amortization	49,233	49,099
	2,622,047	2,478,575
Net income for the year	1,300,601	1,204,344
Retained income, beginning of year	289,980	285,636
	1,590,581	1,489,980
Deduct		
Dividend paid to the Province of Ontario	1,275,000	1,195,000
Payment to municipalities on behalf of the Province of Ontario (Note 9)	4,700	5,000
	1,279,700	1,200,000
Retained income, end of year	**310,881**	**289,980**

See accompanying notes to financial statements.

*Note: In May, 2007, the LCBO Board unanimously agreed to split the Audit and Governance Committee into two new committees in keeping with other measures designed to improve corporate governance: the Audit Committee and the Governance and Compensation Committee. During fiscal 2006-07, Laurel Murray was a member of the Audit and Governance Committee, but when these two new committees were formed she was elected chair of the Audit Committee, hence she signed the Financial Statements in this new role. Jean Simpson, the former Chair of the Audit and Governance Committee, was elected Chair of the Governance and Compensation Committee.

Statement of Cash Flows – Year Ended March 31, 2007 ($000)

	2007	2006
Cash provided from operations		
Net income	1,300,601	1,204,344
Amortization	49,233	49,099
Loss (Gain) on sale of capital assets	(2,060)	339
	1,347,774	1,253,782
Net change in non-cash items		
Working capital	(3,767)	(1,085)
Accrued benefit obligation	14,492	3,991
	1,358,499	1,256,688
Cash used for investment activities		
Purchase of capital assets	(54,217)	(54,535)
Proceeds from sale of capital assets	2,673	104
	(51,544)	(54,431)
Cash used for financing activities		
Dividend paid to the Province of Ontario	(1,275,000)	(1,195,000)
Payment to municipalities on behalf of the Province of Ontario	(4,700)	(5,000)
	(1,279,700)	(1,200,000)
Increase in cash during the year	27,255	2,257
Cash and cash equivalents, beginning of year	108,530	106,273
Cash and cash equivalents, end of year	**135,785**	**108,530**

See accompanying notes to financial statements.

Notes to Financial Statements

1. Status of the Corporation

The Liquor Control Board of Ontario (Board) is a corporation without share capital incorporated under the *Liquor Control Act*, R.S.O. 1990, Chapter L.18. The corporation is a government enterprise responsible for regulating the production, importation, distribution and sale of alcoholic beverages in the Province of Ontario. As an Ontario Crown Corporation, the Board is exempt from income taxes under Section 149(1)(d) of the *Canadian Income Tax Act*. The Board transfers most of its profits to the Province of Ontario's Consolidated Revenue Fund in the form of a dividend.

2. Significant Accounting Policies

(a) Basis of Accounting

The Board's financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(b) Cash and Cash Equivalents

Cash and cash equivalents comprise cash, and highly liquid investments with original maturity dates of less than 90 days.

The Board's investment policy restricts short-term investments to high liquidity, high grade money market instruments such as federal/provincial treasury bills, banker's acceptances and term deposits.

(c) Inventories

Inventories are valued at the lower of cost and net realizable value with cost being determined by the moving average cost method.

(d) Capital Assets

Major capital expenditures with a future useful life beyond the current year are capitalized at cost and are amortized on a straight-line basis according to their estimated useful lives, as follows:

Buildings	20 Years
Furniture & Fixtures	5 Years
Leasehold Improvements	5 Years or 10 Years
Computer Equipment	3 Years or 4 Years

Minor capital expenditures and the expenditures for repairs and maintenance are charged to income.

Revenue is recognized when the sale of products is made to customers.

Expenses are recognized as incurred, on an accrual basis, in the period to which they relate.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accrued benefit obligation includes accruals for employee termination payments and unfunded workers compensation obligation and unused vacation entitlements. In fiscal 2007, the cost of these employee future benefits was $23.2 million (2006 – $10.9 million) and is included in Cost and Expenses in the Statement of Income and Retained Income. The accrued benefit obligation as at March 31, 2007 is $60.9 million (2006 – $46.4 million) of which $11.9 million (2006 – $5.3 million) is classified as a current liability. The cost of post-retirement, non-pension employee benefits is paid by the Ministry of Government Services and is not included in the Statement of Income and Retained Income.

4. Pension Plan

The Board provides pension benefits for all its permanent employees (and to non-permanent employees who elect to participate) through the Public Service Pension Fund (PSPF) and the Ontario Public Service Employees' Union Pension Fund (OPSEU Pension Fund) which are multi-employer defined benefit pension plans established by the Province of Ontario. These plans are accounted for as defined contribution pension plans as the Board has insufficient information to apply defined benefit plan accounting. The expense represents the Board's contributions to the plans during the year.

In fiscal 2007, the expense was $15.9 million (2006 – $15.3 million) and is included in Cost and Expenses in the Statement of Income and Retained Income.

5. Capital Assets (in $000)

	2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	13,139	–	13,139	13,223
Buildings	332,611	230,643	101,968	103,669
Furniture & Fixtures	82,266	51,408	30,858	33,397
Leasehold Improvements	231,400	172,668	58,732	54,431
Computer Equipment	102,609	74,233	28,376	23,982
	762,025	**528,952**	**233,073**	**228,702**

The Board is committed under operating leases on leased premises with future minimum rental payments due as follows:

	($000)
2008	41,862
2009	40,896
2010	36,984
2011	34,673
2012	31,248
Thereafter	240,071
	425,734

7. Financial Instruments

The Board's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. The carrying values of these instruments approximate fair value due to the short-term maturities of these instruments.
In management's opinion, the Board is not exposed to significant interest, foreign exchange or credit risks arising from these financial instruments. To manage foreign exchange risk associated with its purchases from foreign suppliers, the Board is authorized to enter into foreign exchange forward contracts, which are commitments to purchase foreign currencies at a specified date in the future at a fixed rate. As at March 31, 2007, the Board had no (2006 – nil) foreign exchange forward contracts outstanding.

Credit risk is the risk that a party to a foreign exchange forward contract will fail to discharge its obligation and cause the Board to incur financial loss. The Board minimizes credit risks by only dealing with major Canadian chartered banks and Canadian subsidiaries of major foreign banks.

8. Contingencies

The Board is involved in various legal actions arising out of the ordinary course and conduct of business. The outcome and ultimate disposition of these actions are not determinable at this time. Accordingly, no provision for these actions is reflected in the financial statements. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs.

9. Payments To Municipalities

Consistent with prior years, in fiscal 2007 the Board was directed by the Government to contribute $4.7 million (2006 - $5 million) to assist municipalities with their glass-recycling costs. For each of fiscal 2008 and 2009, the Board has been directed by the Government to continue making a contribution of $5 million.

10. Ontario Deposit Return Program

On November 6, 2006, the Government of Ontario entered into an agreement with Brewers Retail Inc. for management of a province-wide container deposit return program on wine, liquor and beer containers sold through the Board and Winery and Distillery Retail Stores. Brewers Retail Inc. was appointed the exclusive service provider for a period of five years effective February 5, 2007.

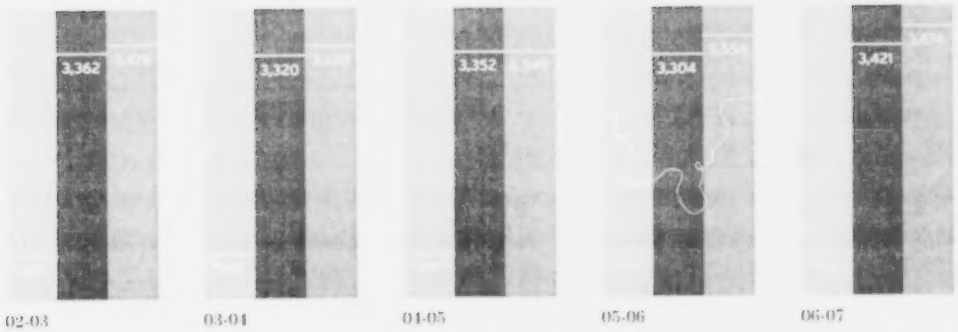
Under the program, the Board is to collect a deposit of 10 or 20 cents on wine, liquor and beer containers. The Board is to reimburse Brewers Retail Inc. for deposits that it pays to customers who return containers to return locations it operates, plus a service fee. In addition, the Government has directed the Board to spend $7.5 million over the first two years of the agreement to promote the program.

For the year ended March 31, 2007, the Board collected $6.3 million of deposits on containers and was invoiced $3.8 million by Brewers Retail Inc. for refunds to the customers.

Expenditures in connection with this program for the year ended March 31, 2007 amounted to $2.5 million for service fees to Brewers Retail Inc. and $5.8 million for promoting the program. These expenditures are included in Administration in the Statement of Income and Retained Income.

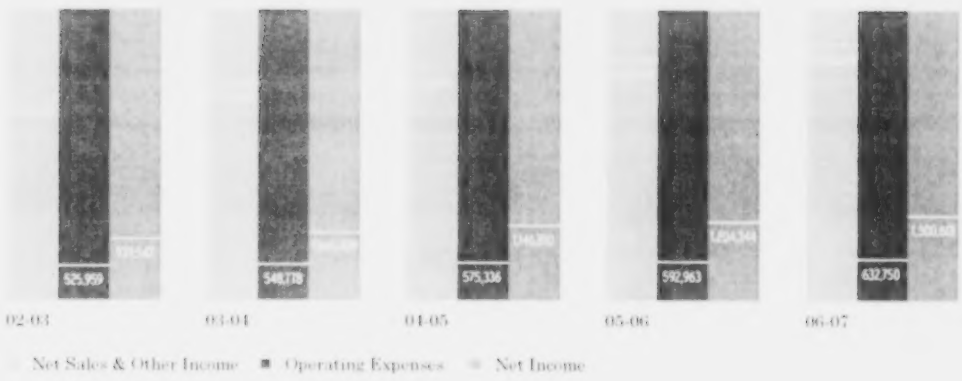
Key Indicators: 2003-07

Operations	2003	2004	2005	2006	2007
Number of LCBO Stores	597	598	597	598	601
Number of Permanent Employees	3,362	3,320	3,352	3,304	3,421
Number of Regular Products Listed	3,476	3,449	3,349	3,556	3,674



Financial Indicators: 2003-07 (in $000)

Financial	2003	2004	2005	2006	2007
Net Sales & Other Income	3,119,240	3,320,681	3,532,171	3,682,919	3,922,648
% Change From Previous Year	6.1%	6.5%	6.4%	4.3%	6.5%
Operating Expenses	525,959	548,778	575,336	592,963	632,750
As a % of Net Sales & Other Income	16.9%	16.5%	16.3%	16.1%	16.1%
Net Income	939,542	1,045,428	1,146,810	1,204,344	1,300,601
As a % of Net Sales & Other Income	30.1%	31.5%	32.5%	32.7%	33.2%



Financial Overview

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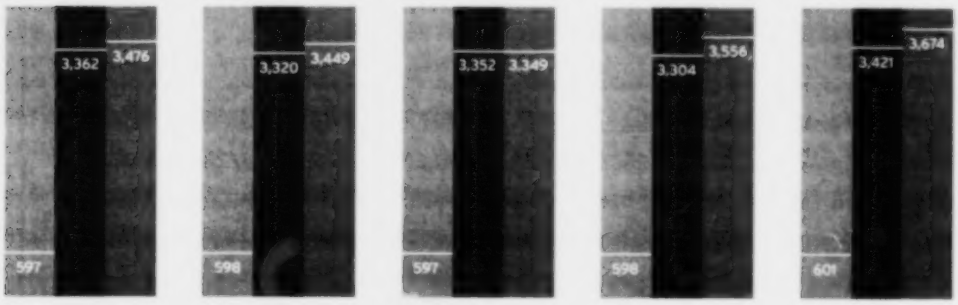
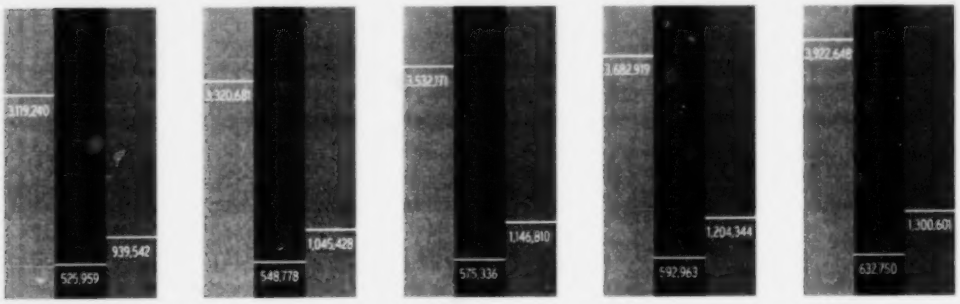


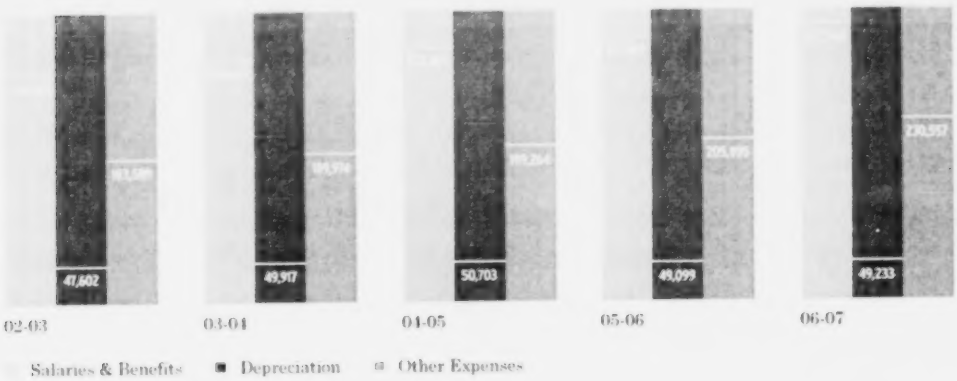
Financial Indicators: 2003-07 (in $000)

Financial	2003	2004	2005	2006	2007
Net Sales & Other Income	3,119,240	3,320,681	3,532,171	3,682,919	3,922,648
% Change From Previous Year	6.1%	6.5%	6.4%	4.3%	6.5%
Operating Expenses	525,959	548,778	575,336	592,963	632,750
As a % of Net Sales & Other Income	16.9%	16.5%	16.3%	16.1%	16.1%
Net Income	939,542	1,045,428	1,146,810	1,204,344	1,300,601
As a % of Net Sales & Other Income	30.1%	31.5%	32.5%	32.7%	33.2%



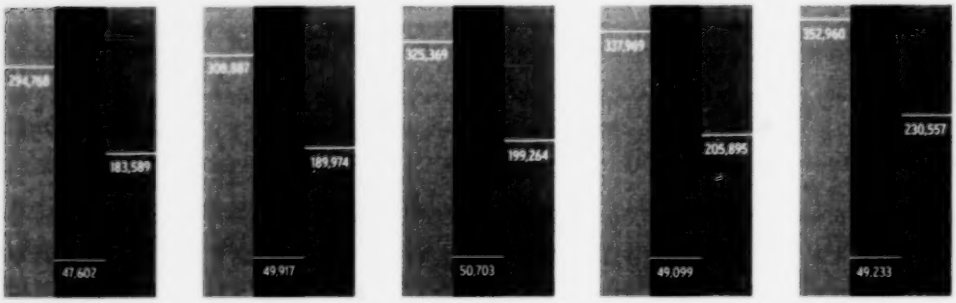
Operating Expenses: 2003-07 (in $000)

	2003	2004	2005	2006	2007
Salaries & Benefits	294,768	308,887	325,369	337,969	352,960
Depreciation	47,602	49,917	50,703	49,099	49,233
Other Expenses	183,589	189,974	199,264	205,895	230,557
Total Operating Expenses	**525,959**	**548,778**	**575,336**	**592,963**	**632,750**



Operating Expenses: 2003-07 (in $000)

	2003	2004	2005	2006	2007
Salaries & Benefits	294,768	308,887	325,369	337,969	352,960
Depreciation	47,602	49,917	50,703	49,099	49,233
Other Expenses	183,589	189,974	199,264	205,895	230,557
Total Operating Expenses	**525,959**	**548,778**	**575,336**	**592,963**	**632,750**



Revenue Payments: Values (in $000)

Treasurer of Ontario	2003	2004	2005	2006	2007
Remitted by the Liquor Control Board:					
•On account of profits	975,000	1,040,000	1,115,000	1,200,000	1,279,700
•Ontario retail sales tax on sales of liquor	288,884	308,134	328,753	341,773	363,338
Remitted by the Alcohol & Gaming Commission:					
•On account of licence fees and permits	526,650	487,589	488,988	516,444	499,373
Remitted by others:					
•Ontario retail sales tax on sales through The Beer Store and Ontario winery retail stores	194,320	196,733	197,890	213,264	206,405
•Ontario retail sales tax on sales through agency stores	5,596	7,582	9,076	9,697	10,404
Total	**1,990,449**	**2,040,037**	**2,139,707**	**2,281,177**	**2,359,220**

Receiver General for Canada	2003	2004	2005	2006	2007
Remitted by the Liquor Control Board:					
•Excise taxes and Customs duties	294,203	307,366	308,514	321,350	332,839
•Goods and Services Tax	97,459	103,464	119,444	124,978	119,185
Remitted by others:					
•Excise taxes, GST and other duties/taxes	303,508	347,231	329,810	360,779	344,134
•Goods and Services Tax remitted on sales through agency stores	3,264	4,423	5,294	5,656	5,381
Total	**698,434**	**762,484**	**763,062**	**812,763**	**801,539**

Ontario Municipalities	2003	2004	2005	2006	2007
Remitted by the Liquor Control Board:					
•Realty taxes*	11,253	12,280	13,678	14,848	15,243
Total Revenue Payments	**2,700,136**	**2,814,801**	**2,916,447**	**3,108,788**	**3,176,002**

*Note: Includes property taxes on leased properties.

Volume Sales (in 000 Litres)

Product Type	2003	2004	2005	2006	2007	% Change
Domestic Spirits	33,356	33,520	33,845	34,501	34,378	-0.4%
Imported Spirits	19,771	20,293	21,099	21,637	22,002	1.7%
Total Spirits	**53,127**	**53,813**	**54,944**	**56,138**	**56,380**	**0.4%**
Domestic Wine	29,912	30,948	32,528	33,491	34,337	2.5%
Imported Wine	66,504	70,118	75,150	78,528	83,575	6.4%
Total Wine	**96,416**	**101,066**	**107,678**	**112,018**	**117,912**	**5.3%**
Domestic Beer	79,289	84,891	82,273	81,373	85,641	5.2%
Imported Beer	91,909	98,388	99,228	107,422	114,463	6.6%
Total Beer	**171,198**	**183,279**	**181,501**	**188,795**	**200,104**	**6.0%**
Domestic Spirit Coolers	29,076	26,958	26,569	26,019	24,359	-6.4%
Imported Spirit Coolers	3,877	5,458	4,710	4,585	4,834	5.4%
Domestic Wine Coolers	426	233	136	113	62	-44.5%
Imported Wine Coolers	228	253	236	328	313	-4.6%
Domestic Beer Coolers	157	319	581	641	556	-13.3%
Imported Beer Coolers	284	153	51	96	207	115.2%
Total Coolers	**34,047**	**33,374**	**32,282**	**31,782**	**30,332**	**-4.6%**
Total Domestic	**172,215**	**176,869**	**175,933**	**176,137**	**179,334**	**1.8%**
Total Imported	**182,573**	**194,663**	**200,473**	**212,596**	**225,394**	**6.0%**
Total	**354,787**	**371,532**	**376,406**	**388,733**	**404,728**	**4.1%**

Product Type	2003	2004	2005	2006	2007	% Change
Sales by Ontario Winery Stores	16,720	17,327	17,926	18,751	19,452	3.7%
Sales by The Beer Store & On-site Stores	656,093	660,077	651,593	680,843	674,215	-1.0%

Note: The 2007 sales figures for Ontario Winery Stores, The Beer Store (TBS) and on-site stores are unaudited and understate total sales due to various brewers not reporting by the time of publication. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales litres, 62,423,834 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy.

Share of Volume Sales (in 000 Litres)

Market	2006-07	% of Total
Spirits	56,380	14%
Wine	117,912	29%
Beer	200,104	49%
Coolers	30,332	8%
Total	**404,728**	**100%**

Value Sales (in $000)

Product Type	2003	2004	2005	2006	2007	% Change
Domestic Spirits	760,814	781,699	813,997	834,655	866,881	3.9%
Imported Spirits	517,622	540,104	577,761	606,632	645,933	6.5%
Total Spirits	**1,278,436**	**1,321,802**	**1,391,758**	**1,441,287**	**1,512,814**	**5.0%**
Domestic Wine	248,579	266,297	287,631	297,185	318,119	7.0%
Imported Wine	782,113	859,107	945,407	1,005,253	1,108,826	10.3%
Total Wine	**1,030,691**	**1,125,404**	**1,233,039**	**1,302,438**	**1,426,945**	**9.6%**
Domestic Beer	274,263	303,648	301,607	297,216	310,679	4.5%
Imported Beer	339,213	372,241	403,456	444,258	473,834	6.7%
Total Beer	**613,476**	**675,889**	**705,063**	**741,474**	**784,513**	**5.8%**
Domestic Spirit Coolers	141,747	133,979	136,221	133,721	129,511	-3.1%
Imported Spirit Coolers	21,083	30,137	26,968	27,524	28,552	3.7%
Domestic Wine Coolers	1,617	914	552	470	260	-44.7%
Imported Wine Coolers	1,261	1,402	1,309	1,915	1,906	-0.5%
Domestic Beer Coolers	631	1,483	2,762	3,006	2,557	-14.9%
Imported Beer Coolers	1,337	543	213	400	1,222	205.4%
Total Coolers	**167,675**	**168,458**	**168,024**	**167,034**	**164,007**	**-1.8%**
Total Domestic	**1,427,651**	**1,488,019**	**1,542,769**	**1,566,254**	**1,628,006**	**3.9%**
Total Imported	**1,662,629**	**1,803,534**	**1,955,115**	**2,085,981**	**2,260,273**	**8.4%**
Non Liquor and Other	**7,410**	**6,344**	**7,499**	**7,201**	**6,317**	**-12.3%**
Total	**3,097,690**	**3,297,897**	**3,505,383**	**3,659,436**	**3,894,596**	**6.4%**

Product Type	2003	2004	2005	2006	2007	% Change
Sales by Ontario Winery Stores	146,502	153,621	164,155	176,214	189,138	7.3%
Sales by The Beer Store & On-site Stores	2,107,773	2,160,539	2,161,707	2,229,642	2,204,814	-1.1 %

Note: The 2007 sales figures for Ontario Winery Stores, The Beer Store (TBS) and on-site stores are un-audited and understate total sales due to various brewers not reporting by the time of publication. Value sales consist of net sales for LCBO and Ontario Winery Stores. Sales values for TBS have been restated to reflect net sales less GST. LCBO beer sales figures include LCBO sales to TBS; of LCBO's total beer sales, $263,737,369 were to TBS. Prior year figures are restated annually to reflect changes in product hierarchy. Category totals produced here include sales through VINTAGES and LCBO Private Ordering, and therefore do not match the totals found in the Product Trends sections of this Annual Report.

Share of Value Sales (in $000)

Market	2006-07	% of Total
Spirits	1,512,814	39%
Wine	1,426,945	37%
Beer	784,513	20%
Coolers	164,007	4%
Total	**3,888,279**	**100%**

Product Listings

	2003	2004	2005	2006	2007
Domestic					
Spirits	460	472	430	442	440
Wine	469	432	434	447	450
Beer	444	473	433	494	491
Imported					
Spirits	652	691	680	738	762
Wine	1,187	1,124	1,143	1,160	1,236
Beer	264	257	229	275	295
Total Regular Listings	**3,476**	**3,449**	**3,349**	**3,556**	**3,674**
VINTAGES Wines and Spirits	3,127	4,250	4,464	5,953	5,633
Duty-Free Listings	240	221	229	234	231
Consignment Warehouse & Private Ordering	6,813	7,286	8,204	9,483	9,225
Total Product Listings	**13,656**	**15,206**	**16,246**	**19,226**	**18,763**

Note: Product listing figures for Consignment Warehouse and Private Ordering are estimated based on invoices produced by Specialty Services. The total does not include products delisted during the fiscal year.

Ontario Sales Channel Summary (in $000)

	2003	2004	2005	2006	2007
LCBO Total Sales	3,622,049	3,857,394	4,101,684	4,284,222	4,530,392
The Beer Store Total Sales	2,607,077	2,638,488	2,639,319	2,686,509	2,724,978
Winery Retail Stores	174,284	182,349	195,280	208,452	227,768
Other Channels					
Legal	957,073	667,687	702,261	641,091	598,853
Homemade	50,852	148,163	157,301	153,239	142,626
De-alcoholized Beer	19,125	20,503	17,293	16,070	16,182
Illegal	455,529	442,971	523,572	550,219	661,356
Grand Total	**7,885,989**	**7,957,555**	**8,336,711**	**8,539,803**	**8,902,155**

Note: All figures above are shown in gross sales. Sales values reported under the Other Channels category are estimated using the average retail price for spirits, wine and beer sold under the LCBO, WRS and TBS respectively. LCBO and TBS figures are slightly overstated due to reciprocal sales included in the totals. These sales are excluded in the table below.

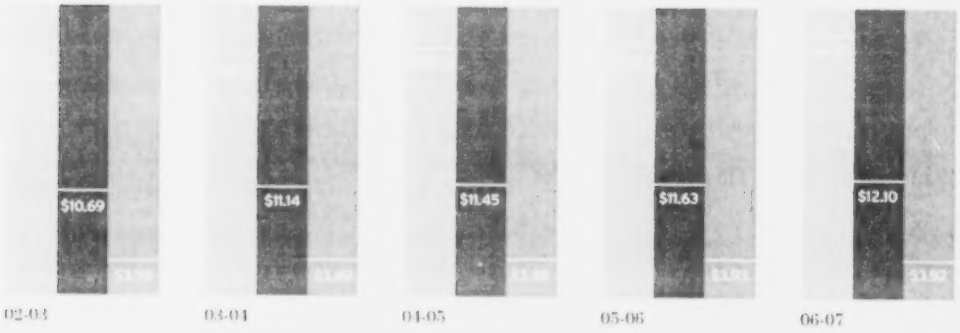
Share of Ontario Beverage Market

Market	2006-07	2005-06
LCBO	50.2%	49.4%
The Beer Store	30.4%	31.3%
Other Legal	8.9%	9.9%
Illegal Channel	7.8%	6.8%
Winery Retail Stores	2.7%	2.6%

Average LCBO Net Sales Per Litre

Product Type	2003	2004	2005	2006	2007
Spirits	$24.06	$24.56	$25.33	$25.67	$26.83
Wine	$10.69	$11.14	$11.45	$11.63	$12.10
Beer	$3.58	$3.69	$3.88	$3.93	$3.92
Average Transaction Value Per Customer	**$31.90**	**$32.97**	**$34.52**	**$35.55**	**$36.42**

Note: Includes Coolers

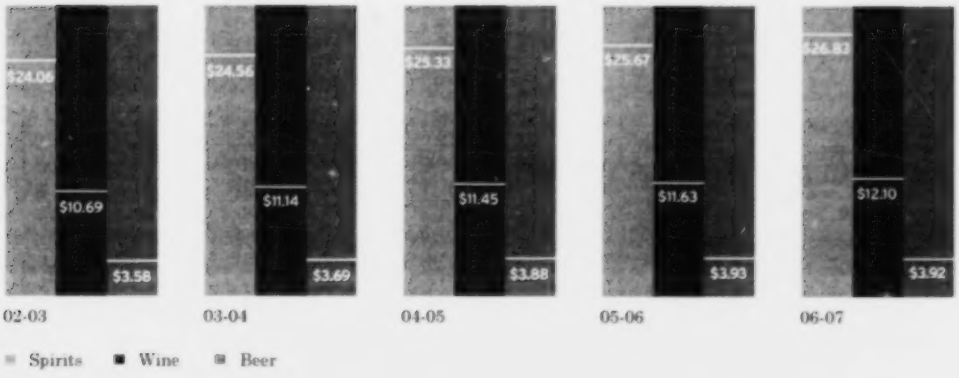


Average LCBO Net Sales Per Litre

(Prices Exclude GST and PST)

Product Type	2003	2004	2005	2006	2007
Spirits	$24.06	$24.56	$25.33	$25.67	$26.83
Wine	$10.69	$11.14	$11.45	$11.63	$12.10
Beer	$3.58	$3.69	$3.88	$3.93	$3.92
Average Transaction Value Per Customer	**$31.90**	**$32.97**	**$34.52**	**$35.55**	**$36.42**

Note: Includes Coolers



LCBO Sales Volume by Category 2006-07

	02-03	03-04	04-05	05-06	06-07
Canadian Spirits					
Canadian Whisky	17.4%	17.5%	17.6%	17.4%	17.4%
Canadian Rum	8.5%	8.5%	8.7%	8.8%	8.8%
Canadian Vodka	8.8%	9.0%	9.1%	9.7%	10.0%
Canadian Liqueur	1.9%	2.1%	2.3%	2.4%	2.5%
Spirit Coolers	33.9%	31.3%	30.9%	30.1%	28.5%
Canadian Dry Gin	1.0%	0.9%	0.9%	0.8%	0.8%
Other	1.2%	0.8%	0.6%	0.6%	0.5%
Imported Spirits					
Scotch	4.4%	4.5%	4.6%	4.5%	4.5%
Liqueur	3.9%	3.9%	3.9%	3.8%	3.9%
Miscellaneous Liquors	2.8%	3.0%	3.1%	3.1%	3.4%
Vodka	4.2%	4.4%	4.8%	5.0%	5.5%
French Brandy	2.0%	2.1%	2.1%	2.1%	2.1%
Spirit Coolers	4.5%	6.3%	5.5%	5.3%	5.7%
Other	5.6%	5.8%	6.1%	6.4%	6.4%
Total Spirits (000 litres)	**85,856**	**86,062**	**86,035**	**86,527**	**85,348**
Canadian Wines					
White Table	14.9%	14.9%	14.6%	14.5%	14.2%
Red Table	8.5%	9.0%	9.2%	9.1%	9.1%
Rose Table	0.9%	1.0%	1.0%	1.0%	1.0%
7% Sparkling	1.6%	1.5%	1.4%	1.3%	1.2%
Fortified	1.6%	1.5%	1.5%	1.3%	1.2%
Wine Coolers	0.5%	0.2%	0.1%	0.1%	0.1%
Other	2.1%	1.6%	1.3%	1.2%	1.1%
Imported Wines					
White Table	24.4%	23.7%	22.9%	22.9%	22.5%
Red Table	34.3%	35.7%	37.6%	38.3%	39.3%
Rose Table	2.3%	2.0%	1.7%	1.6%	1.4%
Sparkling	2.4%	2.3%	2.2%	2.2%	2.2%
Fortified	2.0%	1.9%	1.8%	1.6%	1.5%
Wine Coolers	0.2%	0.3%	0.2%	0.3%	0.3%
Other	4.5%	4.8%	4.7%	4.8%	5.0%
Total Wine (000 litres)	**91,607**	**96,342**	**102,077**	**105,724**	**111,386**

LCBO Sales Volume by Category 2006-07 (Continued)

	02-03	03-04	04-05	05-06	06-07
Canadian Beer					
Ontario Beer	41.5%	40.8%	42.3%	42.7%	42.1%
Other Canadian Beer	7.4%	8.3%	5.6%	3.0%	2.9%
Imported Beer					
U.S. Beer	11.6%	9.8%	8.9%	8.8%	9.5%
Other Imported Beer	39.4%	41.0%	43.1%	45.4%	45.4%
Sake	0.1%	0.1%	0.1%	0.1%	0.1%
Total Beer (000 litres)	**157,174**	**168,101**	**164,827**	**170,245**	**181,959**
Total (000 litres)	**334,637**	**350,505**	**352,939**	**362,496**	**378,693**

Notes: These figures exclude Private Ordering and other head office sales. Prior year figures are restated annually to reflect changes in product hierarchy.

LCBO Net Sales by Category 2006-07

	02-03	03-04	04-05	05-06	06-07
Canadian Spirits					
Canadian Whisky	24.3%	24.2%	23.8%	23.1%	22.7%
Canadian Rum	11.5%	11.4%	11.5%	11.4%	11.3%
Canadian Vodka	12.0%	12.2%	12.2%	12.7%	13.0%
Canadian Liqueur	2.3%	2.5%	2.7%	2.8%	2.9%
Spirit Coolers	9.9%	9.0%	8.8%	8.4%	7.8%
Canadian Dry Gin	1.4%	1.2%	1.2%	1.1%	1.0%
Other	1.1%	0.8%	0.7%	0.6%	0.6%
Imported Spirits					
Scotch	8.0%	8.0%	8.0%	7.9%	7.8%
Liqueur	6.3%	6.3%	6.1%	6.0%	6.0%
Miscellaneous Liquors	4.4%	4.5%	4.6%	4.5%	4.9%
Vodka	5.4%	5.7%	6.3%	6.7%	7.3%
French Brandy	3.9%	3.9%	3.8%	3.7%	3.7%
Spirit Coolers	1.5%	2.0%	1.7%	1.7%	1.7%
Other	8.0%	8.2%	8.7%	9.4%	9.3%
Total Spirits ($000)	**1,433,271**	**1,483,035**	**1,551,337**	**1,598,743**	**1,667,000**
Canadian Wines					
White Table	11.1%	10.8%	10.5%	10.4%	10.2%
Red Table	6.8%	7.1%	7.2%	7.0%	7.1%
Rose Table	0.6%	0.7%	0.7%	0.7%	0.7%
7% Sparkling	1.0%	0.9%	0.8%	0.8%	0.7%
Fortified	1.1%	1.0%	1.0%	0.9%	0.8%
Wine Coolers	0.2%	0.1%	0.0%	0.0%	0.0%
Other	2.2%	1.9%	1.7%	1.7%	1.6%
Imported Wines					
White Table	23.1%	22.3%	22.0%	22.3%	22.1%
Red Table	41.8%	43.5%	44.9%	45.3%	46.3%
Rose Table	1.9%	1.6%	1.3%	1.3%	1.2%
Sparkling	4.4%	4.2%	4.2%	4.2%	4.2%
Fortified	2.3%	2.2%	2.1%	2.0%	1.8%
Wine Coolers	0.1%	0.1%	0.1%	0.2%	0.1%
Other	3.6%	3.7%	3.4%	3.3%	3.3%
Total Wine ($000)	**972,228**	**1,056,975**	**1,151,038**	**1,209,678**	**1,326,596**

LCBO Net Sales by Category 2006-07 (Continued)

	02-03	03-04	04-05	05-06	06-07
Canadian Beer					
Ontario Beer	39.5%	38.7%	39.4%	39.0%	38.3%
Other Canadian Beer	6.9%	7.8%	5.6%	3.4%	3.2%
Imported Beer					
U.S. Beer	10.0%	8.3%	7.8%	7.8%	8.4%
Other Imported Beer	43.2%	44.9%	46.8%	49.4%	49.8%
Sake	0.3%	0.3%	0.4%	0.4%	0.4%
Total Beer ($000)	**582,399**	**641,364**	**653,391**	**679,264**	**723,221**
Total ($000)	**2,987,898**	**3,181,374**	**3,355,766**	**3,487,685**	**3,716,817**

Notes: These figures exclude Private Ordering and other head office sales. Prior year figures are restated annually to reflect changes in product hierarchy.

LCBO Net Sales by Country of Origin 2006-07 – Spirits

Country	Net Sales ($)	Litres	Country	Net Sales ($)	Litres
Canada	987,015,871	58,486,670	Austria	776,361	16,130
United Kingdom	205,433,380	9,572,224	Serbia & Montenegro	758,142	26,183
France	105,105,101	2,846,936	Hungary	739,099	27,722
United States	86,038,365	4,006,296	Bahamas	632,828	18,509
Ireland	67,125,439	2,277,066	Ukraine	618,141	21,913
Sweden	46,611,588	1,910,269	Nicaragua	583,562	20,449
Mexico	37,003,207	1,103,404	Dominican Republic	534,346	21,093
Italy	35,249,522	1,358,318	India	513,340	20,868
Germany	15,765,530	538,312	Virgin Islands,US	439,015	29,820
Russia	14,226,334	581,353	Lebanon	411,584	14,910
Finland	12,958,592	516,566	Denmark	381,393	17,806
Poland	10,452,780	366,517	China	307,756	7,692
Jamaica	5,742,498	194,612	Trinidad	232,346	5,590
Barbados	4,408,519	159,200	Brazil	218,523	7,775
South Africa	4,049,121	149,310	Turkey	163,449	4,871
Greece	3,942,801	163,572	Japan	134,333	2,439
Switzerland	3,367,170	103,917	Iceland	102,977	2,609
Netherlands	3,061,153	125,662	Israel	95,384	4,411
Cuba	2,560,815	88,975	Australia	78,428	14,690
New Zealand	2,367,350	302,088	Sri Lanka	52,670	1,859
Bermuda	1,078,357	42,372	British Virgin Islands	31,423	1,334
Portugal	1,034,170	34,529	Venezuela	30,831	916
Guyana	1,004,790	34,008	Grenada	26,352	758
Czech Republic	920,366	12,780	Belgium	7,826	227
Croatia	899,295	30,944	Colombia	1,079	35
Puerto Rico	869,414	21,096	Saint Lucia	1,073	68
Spain	852,621	32,203	Philippines	201	10
Total	**1,667,016,611**	**85,349,885**			

Note: Net value represents net sales excluding Private Ordering sales. In fiscal 2006-07, the LCBO sold products from 76 different countries.

LCBO Net Sales by Country of Origin 2006-07 – Wine

Country	Net Sales ($)	Litres	Country	Net Sales ($)	Litres
Canada	279,796,205	31,160,733	Austria	512,949	34,747
Australia	244,177,926	16,476,387	Romania	398,310	35,883
Italy	232,833,683	18,735,469	Poland	375,642	24,350
France	201,032,958	13,880,676	Moldova, Rep. Of	356,085	40,608
United States	129,823,250	10,610,150	Ireland	333,550	75,564
Chile	63,681,336	5,729,610	Jamaica	328,411	26,898
South Africa	38,882,734	3,397,338	Croatia	266,926	24,234
Spain	31,583,987	2,211,563	South Korea	243,448	10,532
Portugal	26,791,751	2,072,567	Denmark	205,087	15,751
Germany	21,660,031	1,903,218	Georgia	191,058	11,848
New Zealand	20,283,276	1,054,037	Uruguay	165,571	11,597
Argentina	15,966,693	1,361,329	Macedonia	140,794	20,323
United Kingdom	6,006,951	1,330,199	Ukraine	116,305	6,338
Greece	4,113,443	452,495	Switzerland	106,268	5,185
Hungary	2,756,215	301,879	India	86,058	5,900
Japan	1,339,130	86,549	Luxembourg	43,729	2,216
Israel	1,133,211	82,670	Cyprus	42,272	2 357
Serbia & Montenegro	981,795	112,665	Slovenia	41,113	2,922
Bulgaria	913,293	99,753	Tunisia	25,860	1,767
Belgium	740,641	120,921	Lebanon	15,263	743
Mexico	731,035	57,697	Slovakia	2,420	112
Total	**1,329,226,663**	**111,597,785**			

Note: Net value represents net sales excluding Private Ordering sales. In fiscal 2006-07, the LCBO sold products from 76 different countries.

LCBO Net Sales by Country of Origin 2006-07 – Beer

Country	Net Sales ($)	Litres	Country	Net Sales ($)	Litres
Canada	300,061,947	81,849,552	Portugal	736,275	192,068
Netherlands	96,345,103	21,861,166	Japan	554,299	141,530
Mexico	94,909,612	20,163,093	Slovenia	506,330	137,986
United States	61,591,559	17,455,959	South Africa	483,035	136,722
Belgium	41,930,480	8,855,859	Ukraine	418,626	115,030
Germany	33,701,981	9,186,237	Russia	385,908	110,775
Ireland	17,780,745	3,648,356	Lithuania	350,800	98,526
United Kingdom	14,519,694	3,117,749	Sri Lanka	270,624	54,299
Denmark	13,643,023	3,841,031	Cuba	188,662	39,550
Poland	12,260,908	3,344,264	New Zealand	185,239	38,977
Czech Republic	7,695,453	2,015,982	Greece	147,526	35,035
Brazil	6,092,140	1,385,759	Kenya	146,591	28,347
Jamaica	2,549,569	520,901	Latvia	143,434	42,204
Austria	2,288,027	726,258	Estonia	130,299	35,365
France	2,197,105	498,906	Philippines	105,972	22,710
Argentina	1,696,227	454,016	Panama	85,060	29,411
China	1,443,811	346,674	Australia	64,287	14,891
Slovakia	1,193,523	300,887	Croatia	59,308	16,530
Singapore	961,716	276,393	Vietnam	51,225	12,304
Thailand	911,423	188,093	Cyprus	8,039	1,694
Trinidad	892,738	200,593	India	5,665	1,465
Italy	879,674	202,036			
Total	**720,573,663**	**181,745,182**			

Note: Net value represents net sales excluding Private Ordering sales. In fiscal 2006-07, the LCBO sold products from 76 different countries.

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